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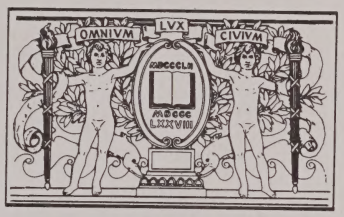

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BOSTON HOUSING: DYNAMICS, TRENDS AND OUTLOOK

By

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Department of Urban Studies and Planning
Massachusetts Institute of Technology
Cambridge, Mass.

Prepared for

Boston Redevelopment Authority
Policy Development and Research Department
Boston, Mass.

1989

Note: The opinions expressed here are those of the author and do not represent opinions of the Boston Redevelopment Authority.

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EXECUTIVE SUMMARY

This report assesses the major trends shaping the future of housing in Boston. It describes the dynamics set off by these trends and the policies that will be required to address them as the city pursues its goal of decent housing for every citizen, especially those with limited resources. Highlights of the report include the following:

Return to population growth. The economic transformation of the city has stimulated population and household growth after 30 years of population decline. This growth is part of a regional trend and is based on a diversified economic base. Further growth is expected with a projected population in the city by the Year 2000 of 700,000. Achieving this growth requires that the city's housing stock expands.

Housing production must accommodate growth. Failure to develop housing to meet this growth will force growth to occur elsewhere. This makes housing a key element in the city's (and the state's) economic development strategy.

Housing shortages. This transformation in the last decade took place faster than the city produced housing. Population growth between 1980 and 1985 should have stimulated production of about 15,000 new units, yet than 10,000 units were produced. Despite high levels of production in the past 5 years, we have a housing shortage and vacancy rates are well below 5 percent. More than 3000 persons are counted among the homeless and an unknown number of households are doubled up.

Continuing housing price increases. Housing prices and rents have increased dramatically in recent years. Home prices have increased more than 100 percent in the last 5 years and rents have increased about 40 percent. Some areas have registered even larger gains. The price increases have been areawide and they now make Boston one of the two or three most expensive cities for housing in the continental U.S.

Strong high-income market. Boston has experienced a significant increase in high income households and nonfamily households. They are able to pay the higher prices and are able to out-bid lower income residents for housing. Despite media accounts of a real estate bust, the market is still

strong. Inflation is more modest; any real weakness in the city is limited to condominiums in selected areas.

Affordability gap for growing numbers of households. With a tight market and a resident population whose median income, in real terms, has remained constant, affordability has become a major problem affecting not just the poor but a growing number of households which at other times were able to meet their housing needs with a reasonable financial effort. Inflation has made it necessary that subsidy resources be more broadly distributed than used to be the case.

Housing supply increase inadequate. The large increase in demand for housing has not translated into production of an adequate supply. Much of the change in the inventory has been through conversions and stock adjustments. More than 30,000 condominiums have been created during this decade, the vast majority through conversion of private apartments.

Condominium conversion to speculative rentals a concern. While higher values and reinvestment are associated with significant improvement in the quality of housing in the city, the conversion of thousands of private apartment into condos only to be re-rented at significantly higher rents should be a source of concern. There is a real possibility that we are creating a new type of absentee or speculative owner of real estate whose behavior could undermine housing in those areas where investor-owned condominiums rather than owner-occupied condominiums dominate.

Necessary production levels and subsidies very high. It is estimated that the city needs to produce an average of more than 3000 units per year over the next decade to meet the potential growth in population, to cover replacement needs, and to reach a healthy level of vacancy. This level of production is three times the level of the early 1980s. While production levels averaged this much since 1985, the trends do not suggest it will be easy for the city to sustain this level of production, especially since the income distribution of city residents requires that at least two-thirds of this production be for families earning less than $30,000 per year. When development costs and resident incomes are taken into account, this allocation would require far more in subsidies than is available or than can be reasonably projected at this time.

Strong market puts some at risk. The strengthening of the housing market leaves some households at greater risk. Minority households, families with children or on welfare, are among those who face continued or even enhanced discrimination in a market where landlords have lots of potential tenants, including tenants who are willing to pay more than even the government will pay for the unit.

Lost cost housing supply shrinking as need grows. Many of the housing resources the poor have relied on in the past are at risk of loss over the next decade. This includes the one-sixth of the housing which is publically owned or subsidized but which faces a loss of federal subsidy, outright sale, or default. There continues to be an erosion in the number of privately-owned apartments with low rents. In general, the usual ways the market has adjusted to growth and change in the composition of housing demand is increasingly unbalanced: supply is not growing as rapidly as is demand, and the supply for the most needy is shrinking as their numbers increase.

Low cost rentals impossible to produce without subsidy. There has been a fundamental change in the housing investment environment. Some of these are national (i.e. tax reform, bank deregulation, end of subsidies, etc), while others have to do with local perceptions about Boston as a place to live and invest. The basic point is that it is impossible to produce unsubsidized, non-luxury rental housing in a city where more than two-thirds of the households are renters and where despite growth in the number of high income households (due mainly to dual incomes), the median income is only $23,000. This is far from an adequate income from which to draw market rents.

Shortage of sites for housing. Boston faces a potential shortage of residential development sites. Such a conclusion has to be tentative since a rezoning effort is in place and in many areas, the issue of use – as between residential and other uses -- is not settled.

Government resources are limited. Resources to address the housing needs of the city are in short supply. There is little in the way of federal resources and further increases in state resources seem limited by the state's fiscal problems. Solving the housing problem in the city is going to require innovative action by the city, regardless of what the federal government does. While the amount of subsidy seems large, some of it is in place in scattered pieces that have to be combined.

City's efforts have had large impact. Boston is a national model of creative and supportive efforts to meet its housing needs. The problems would have been much more serious had the city not greatly improved its housing development and support capacity in the last 5 years. The city has given support to a strong nonprofit sector and recent initiatives to involve minority developers are positive.

The report identifies policy initiatives that will be helpful if the city is to continue to address its housing concerns. The report also emphasizes the need for improved information about housing dynamics and strategic regulation of development. If these things are done, the city benefits not only from public programs but from nonprofit and private initiatives as well.

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Chapter 1
Introduction

Boston has gone through a number of major and positive changes in recent years. Compared to where the city was 20 years ago to the various dire predictions, the transformation of the city represents a major change. Downtown and various commercial areas have thousands of new jobs and millions of square feet of new office space. Since 1980 the city's population and households have both increased significantly. The once soft housing market has made an about turn. Nearly every neighborhood reflects increased residential investment and boasts net new units to the housing inventory.

Stagnant rents and prices that were disincentives to investment during the 60's and 70's, have taken off, and now, Boston is one of the most expensive cities in which to consume housing. During 4 of the last 5 years, real estate has yielded an average annual return greater than 20 percent.

The overall quality of life in the city is better. Major public infrastructure improvements and the city's fiscal health have been greatly enhanced. All these improvements have increased the attractiveness of the city to its residents, suburbanites and others, and partly as a result, made the cost of living, especially housing, beyond the reach of many residents.

The city of Boston has a commitment to housing unlike housing policies in previous administrations or in many other cities. This commitment starts with the negative side effects of the recent transformation as its primary concern. The city can boast some of the most innovative local approaches to housing development and assistance anywhere in the country.[1] Unlike most American cities, Boston has a set of policies to address its housing

1. For a survey of what major cities are doing, see A Time to Build Up: A Survey of Cities about Housing Policy, Washington, National League of Cities, 1987.

problems.[2]

The aim of this essay is not to look back. The goal, however, is to evaluate our recent experience and trends and assess where they are leading. The conclusions of this effort are simple: the housing problem in the city is indeed serious. It is changing and will; under all likely scenarios, change even more. While the city has been creative and generous and remains committed to helping low and moderate income households cope, there is the need to develop new approaches and redoubled efforts. Although in the past the city has been able to rely on the federal government for help, the point is driven home in this essay that even with federal assistance, the city has a full agenda.

Framing Boston's Housing Problem

The city's transformation would be entirely good news were it not for the flipside of the improved situation in housing. All the manifestations of an urban housing problem -- lack of affordability, ultra-low vacancy rate, still present racial barriers, uneven conservation of existing housing, etc -- have surfaced in Boston, or having existed previously, now have grown to seemingly intractable proportions. Lack of affordability is now such a problem that few Bostonians -- on the median income of $23,000 -- can afford to buy the median price unit, which in the city costs more than $150,000 and in the area costs more than $180,000. In a strange twist of language, we now refer to "affordable housing" as units costing $80,000 to $110,000.[3] Our framing of affordability in this essay focuses on the situation of low and moderate income households.[4]

2. See Office of the Mayor (of Boston), Breaking Ground: A Report on Boston Housing Policy and Performance, Boston: Office of the Mayor, 1987.

3. An $80,000 home purchase requires an income of almost $40,000 after a 10% downpayment, and allowing for taxes, insurance , and assuming a 30 year fixed rate of 10%.

4. Given a 1986 median income in the city of $23,000, the low income population is that portion of the population earning less than 11,500, while the moderate income group (less than 80% of median earns up 18,400.) When affordability is discussed for other groups, specific income parameters are identified.

Housing production, while it has increased significantly in the last 4 years, has not kept pace with growth in demand. During the 80s, Boston decreased its actual vacancy rate to less than 5%, and in some parts of the market and in some neighborhoods, the vacancy rate is substantially less than 4 percent. Despite this crisis, hundreds of public housing units remain vacant, and once secure federally-assisted units face a decade of risk of loss as a resource for the poor. A major part of housing development activity has been conversions. This conversion, though helpful in upgrading the quality of the housing stock has not aided substantially in expanding the supply of housing.

Racial and other barriers based, for example, on welfare status or sexual preference, limit the ability of households to move effectively throughout the marketplace. Moreover, the tight market facilitates and perhaps encourages various types of discrimination.

In a city where almost 7 in 10 households rent, private nonluxury rental housing has been eroded by an unprecedented level of conversion of existing rental units to condominiums. The remaining private units have had their rents inflated by pressure from sharply higher demand. Rents have increased more than 40 percent since 1982.[5]

Condominium conversion was supposed to provide opportunities for affordable homeownership. Despite the conversion of more than 30,000 units, the ownership rate in the city has not changed significantly. Between 1984 and 1986, it appears that large number of condos were turned into an investment medium for entrepreneurs who in order to take advantage of rising real estate values and a shortage of rental housing, buy units only to re-rent them (at levels much higher than before conversion.) While tax reform and other factors discussed later have decreased this phenomenon, conversions nevertheless have altered the traditional rental market in the city.

5. Most of the rent increases came after 1985. This is the figure for the median advertised rent for a 2 bedroom apartment in the city that rents now for about $800. The reader will note that the rental market is very segmented. Beyond the rental units that are advertised in the daily papers and those whose rents are set by official policy (public housing, rent control or subsidy agreements), there is an unknown, but significant in some areas, number of units that pass from person to person and whose rents are not reflected in any research we are aware of. These units are not advertised.

Against these mounting problems, federal resources are no longer available to cushion the blow for needy households or to add lower cost housing to are stock.[6] Tax benefits used to supplement the low return on private rental housing and serve to promote supply and maintenance of affordable housing. Tax benefits have been reduced and are no longer capable of serving this function.[7] In the past, these mechanisms– federal programs and tax benefits , as well as "normal" market dynamics and real gains in income – made it possible for the market to be, in part, self-correcting for the poor. The problems now seem to be self-aggravating.

A progressive state policy designed in part to address these issues in Boston and in other parts of the state assumed a significant amount of supplementary federal help to make the programs benefit the poor. These resources from the feds have not been forthcoming in recent years and, as a result, have limited the ability of state programs to address effectively the needs of Boston's poor.

Cities have little direct influence on the incomes of its citizens. Addressing the housing needs of low and moderate income people is probably the biggest challenge the city faces where it can play a direct and substantial policy role.[8] This role manifest itself in several ways. First, the city has a commitment to provide assistance with housing for less fortunate residents because the puplicly-induced transformation of the city – from a former manufacturing and mercantile city to a major national and international city of advanced business services, high technology, medicine, education, and

6. Between 1975 and 1980, federal programs to assist needy households increased from 12 percent of such households to 25 percent. Since 1980, the coverage has increased to 28 percent. Almost all of the net growth in assistance has been through the provision of certificates and vouchers and not housing units.

7. For a general discussion of these issues, see Anthony Downs, Rental Housing in the 1980s (Washington: Brookings Institution, 1985.) Also see NAHB, Homebuilders After Tax Reform: A Builder's Guide (Washington: NAHB, 1987.)

8. The growing poverty of some of its citizens is obviously a major problem and one that contributes to and is a part of the housing problem. However, the tools at the disposal of the city to do something directly to affect poverty are limited.

finance -- is partly responsible for their plight and perhaps continues to make it worse.

Second, success in solving housing problems has important implications for the continued success of the economic development the city has experienced. Further economic development in Boston and in Massachusetts faces two serious limits. One limit deals with the availability of labor.[9] The other is an adequate supply of affordable housing.[10] The city and the area is already in short supply of housing at any price. The housing problems cited in this paper may limit the city's (or region's) attractiveness to business and industries seeking to locate or to expand in the area. If business cannot get the labor it needs because people can't afford to live here or if residents who pay high housing costs demand higher wages, then competitive areas with lower housing (and labor) costs will be more attractive.

The affordability problem has not gone unnoticed. For example, The Boston Globe regularly features an ad in the business section sponsored by the Cleveland Growth Association comparing housing prices in Cleveland and Boston. Other areas with lower costs (for land, labor, commercial rents,etc,) are attempting to replicate the Boston renaissance. Austin, Indianapolis, Northern New Jersey, Denver are all examples of this. Some less expensive cities that are already somewhat competitive with Boston include Atlanta and Chicago.

Also at stake is Boston's position in the region. The nature of Boston's diversified economic base means that there are strong forces operating to pull people and businesses into the city (or in its shadow in nearby Cambridge and Quincy, for example.) Boston has benefited substantially from these centripetal forces, but that need not last indefinitely. Other cities in the region -- Hartford, Providence and Nashua -- or other parts of the metro area (i.e., Metro West, for example) could become first small satellites and

9. Already a labor shortage is a major complaint of employers. For a discussion of labor issue and Boston's future, see Fred Doolittle et. al. Future Boston (Cambridge: Joint Center for Urban Studies of MIT and Harvard, 1982.) For more recent illustration of the issue see, (no author), "Mass Faces shortage of Workers," Boston Globe, May 31, 1988, p.68.

10. See Anne Greiner, "The Housing Affordability Gap and Boston's Economic Growth: Potential for Crisis," Boston: Boston Redevelopment Authority, October 1988.

then major magnets for the economic activity that might have been destined for Boston or its nearby suburbs.

Finally, the preservation of substantial investments in affordable housing already made both by the state and federal government is at stake. Seventeen percent of the housing units in the city are either public housing or assisted-housing. Thousands more are subsidized through vouchers, certificates and other means which make them affordable to the poor. If market forces inflate the cost of this assistance (or demand for it) the drain on public dollars will escalate.

Despite this very high level of public and assisted housing(assisted households), various programs reach only the tip of the iceberg of need, for more than 14,000 families are on the public housing waiting list in Boston alone and every rent-up of a new assisted project in the city draws scores, if not hundreds of applicants. Suburbs also have queues of those with unmet needs. Meeting the needs of the population requires that the city first hold on to the units it has even as efforts continue to expand the inventory of housing low and moderate income households can afford.

The housing problems identified here for Boston are not unique to this city. As a nation and as a city we have made some progress in housing needy citizens. Nationally, since 1975, the nation has increased the proportion of the poor served by housing programs from 12% to 28%. We have not, however, made much progress relative to the explosion of serious need and the shrinkage in the permanent resources to address this need.[11]

Between 1937 and 1980 the federal government had a variety of policies aimed at making good on its commitment "...to a decent home in a suitable environment for every American family." The federal government did aid the establishment of a banking and mortgage system, transportation network and housing delivery systems to open suburbia. It also established a tax system with powerful incentives for real estate investment and indirect subsidies to tenants. It held in place until 1980, a finance system that sheltered

11. For a detailed discussion of the trends progress and the magnitude of the continuing challenge, see National Housing Task Force, A Decent Place to Love: The Report if the National Housing Task Force, Washington: National Housing Task Force, 1988, pp. 2-17.

housing for other capital demand sectors. Specific housing policies were developed in 3 phases.

Phase I occurred between 1937 and 1965. The major thrust of the nation's housing policy in this period was public housing. During this first phase the federal government built more than one million public housing units in every major city (as well as many smaller ones.) These predominately large developments were constructed by local housing authorities and given financial support including funds to cover operating deficits. Public housing continues to serve a large number of increasingly poor families and is the largest source of federal housing support for low-income families.[12] Boston has more than 16,000 of these units.

A second thrust during this period was the promotion of homeownership. This was done through the development of a mortgage system, the thrift industry, FHA and VA, and a tax system that subsidized ownership via tax expenditures that currently costs the federal government more than $40 billion annually. Government policies which opened the suburbs, built metropolitan transportation systems, and assisted in the development of infrastructure (for example, water/sewers, schools and hospitals) were also critical.

In the mid 1960's a coalition of liberals and conservatives supported a major shift in the housing policy. Phase II lasted from 1965 to the Nixon moratorium in 1973. During this period, the nation made a major shift that featured reliance on the private sector to build the more than 2 million units of subsidized or assisted housing. The early programs such as Section 221, 236 subsidized housing for families earning 80-95 percent of the local median income. The subsidies were more shallow than public housing subsidies and relied on below market interest rates and a variety of tax preferences to supplement the sponsor's limited dividend. Several thousands of Boston's units are in these programs. [13]

12. See generally, Council of Large Public Housing Authorities, Public Housing Today (Washington: CLPHA, 1986.)

13. For a detailed summary of these see, Boston Housing Authority, Boston Housing 1988: An Informational Report, Boston: BRA, p.39.

In 1974, the Congress enacted the Section 8 New Construction and Substantial Rehabilitation Program. Unlike the previous programs, the Phase III approach provided deep subsidies to low-income families, continued to rely upon the private sector, and emphasized to an increasing degree rehabilitation over new construction. Between 1975 and 1981, this program supported more than 800,000 new or rehabilitated units and thus became the nation's largest housing program, except public housing. No new authority was added to this program after 1981. With its demise went any major increment to Boston low cost housing stock.

This phase also included the Section 8 Certificate Program that provided cash assistance to families (as opposed to subsidies to project owners in other programs) to obtain housing in the unassisted private sector. Almost 1 million units are assisted under this program.

Since 1981, however, the nation has not had a housing policy with a deliberate strategy to promote production. Indeed, the Reagan adminstration had a distinct disinterest in production programs.[14] At this point, the Bush administration seems to have a similar perspective. We have been seven years without a housing production policy.

The present period – nationally in Congress and locally – is a period of rethinking about what the appropriate Phase IV policy should be. Phase IV has to consider the significant changes in the housing environment that occurred during the period since 1980, as well as the lessons from previous policies. In particular, the absence of federal direction has made local officials more purposive in their initiatives and more reliant on their own resources and creativity. Local officials are unlikely to want to give up the discretion and independence they gained in the wake of federal withdrawal. While not all cities have attempted to fill the void caused by federal withdrawal, Boston's self-direction is a constructive feature and among major cities, distinctive and extensive.

14. See President's Housing Commission, Report of the President's Housing Commission. (Washington: The White House, 1981.) Also see John Palmer and Isabel Sawhill The Reagan Experiment (Washington: The Urban Institute, 1988), chapters 1,4, and 11.

Federal rethinking is an occasion for Boston's reflection on what direction the federal government ought to move and what Boston's interest is in future federal housing policy. It is also the occasion for the city to consider what its does – with or without – federal aid to make its policies fit the circumstances they will likely face.

While the federal government in recent years has been passive in the area of production, some changes have occurred to shape urban housing. These include, for example, greater reliance on local governments to design and support housing initiatives, a shift away from tax incentives to housing, and bank deregulation. In addition and perhaps as a response, there has been a growing role for moderate rehabilitation, a heavier reliance on the nonprofit sector, and such other innovations as deregulation, linkage, cooperative housing, inclusionary housing, etc.

The purpose of this paper is to frame this reflection by providing a new and forward look at Boston's housing problems as they relate to each other and as they relate to this broader national rethinking of shelter strategies to help the poor. This paper analyzes where we stand on the demand side in terms of projection of demand, the character of the housing needs and the estimation of these to the year 2000. On the supply side, this paper makes an assessment of our production, maintenance and preservation needs.

The goal at the end is to suggest what the major thrust should be for local and federal housing policies, particularly in the next two years.

Chapter 2
Housing Demand In Boston

There have been several major developments in housing demand in Boston. First and foremost, the population in the city has increased by more than seven percent between 1980 and 1985 from 562,000 to 601,000. This increase was surprising, because projections in the early 1980s suggested that the population would continue to decline as it had during the previous thirty years.[15]

There was also an increase in the number of households in the city from 218,000 to 229,000 – reflecting both a shrinkage in the median household size, and the larger population from which households are drawn. These two developments led to increased demand and occupancy. The occupancy reflected both a decrease in the number of vacant units and an increase in the total number of units. Supply issues are discussed in a later section of this report.

Between now and the year 2000 the population is projected by the BRA to grow moderately as the baby boom population matures. This moderate increase will produce growth of up to 55,510 additional households by the year 2000, up from 228,838 households in 1985.[16]

The decline of the baby boom generation as a major source of growth may not be translated entirely into a reduction in the overall household growth rate. There are other features at work which could well push down household size even more, thereby increasing the number of units required for the population. The trend toward greater longevity (i.e. more very old people), alternative living arrangements, fewer households with children, and non-family households with more disposable income for housing are all factors

15. See Fred Doolittle et. al. Future Boston. (Cambridge: MIT Harvard Joint Center for Urban Studies, 1982.) For a recent population projection, see, Meg O'Brien and Deborah Oriola, "Growth to the Year 2000 in the City of Boston Population Projections," Boston Redevelopment Authority, 1988.

16. See Greg Perkins, "Boston's Housing Needs, 1985-2000," Boston: Boston Redevelopment Authority, August 1987.

that could push demand higher. There are no forces -- present or projected -- that suggest a reversal in the upward push on demand.

Housing demand is not a matter of population alone. It is also a matter of resources. The definition of demand or "effective demand" in housing is the presence of persons or households with a preference and the resources to consume housing. Demand is different from need which is the lack of a match between households with limited resources and the number of decent affordable units of an appropriate size for such households. We can have need with demand. That is the ideal situation. We are concerned when we have need without demand.[17]

The cash resources available to Boston households are key indicators of the demand situation. Overall poverty in the city has edged up slightly between 1980 and 1984 from 20 to 22 percent for the total population and from 31 to 32 percent for the minority population.[18] Table 1 presents this information for the city as a whole and for the neighborhoods.

Looking at the neighborhood numbers separately, the figures suggest an increase in the concentration of the poor. This increased concentration has become a national phenomenon.[19] Poverty was concentrated in 10 neighborhoods in 1980 (concentration here means the percentage poor in the neighborhood is higher than the percentage poor city wide). In 1985 the number of such concentrated neighborhoods was reduced by one (the South End went from a neighborhood with a greater than average concentration of poverty to less than average concentration of poverty).

There are other ways to look at the data. In the neighborhoods where poverty declined, usually the decline was modest. However, in the Central neighborhoods, Back Bay and Beacon Hill in particular, there were dramatic decreases in the concentration of poverty, underscoring both the present

17. This paper cannot fully assess needs since the required information is not presently available in sufficient detail. It is addressed indirectly in the discussion on poverty and the need for affordable units.

18. See Public Facilities Department, Minority Needs Assessment (Boston: PFD, 1987), 1 - 14.

19. See Mary Jo Bane and Paul Jargowsky, "Urban Poverty Areas: Basic Questions Concerning Prevalence, Growth and Dynamics." Cambridge: JFK School of Harvard University, 1988.

displacement and population growth (of nonpoor households) in these areas. The displacement was not only of families, but also small households. Some people who are now homeless were displaced from roominghouses and now demolished single room housing hotels. In these parts of the city, there was a significant growth of small households with higher income.

Table 1. Persons Below Poverty Level in Boston: By Neighborhood, 1985 and 1980 (in percent)

	1985	1980
Allston-Brighton	17	22.4
Back Bay-Beacon Hill	8	17.1
Central	9	24.1
Charlestown	18	19.9
North Dorchester	34	22.2
South Dorchester	29	23.7
East Boston	28	17.7
Fenway-Kenmore	26	35.9
Hyde Park	8	9.0
Jamaica Plain	31	28.6
Mattapan	23	27.9
Roslindale	6	13.9
Roxbury	31	28.5
South Boston	31	25.2
South End	18	23.0
West Roxbury	8	5.7
Boston total pop.	21	20.0
Boston minority pop.	32	31.0

Source: Boston Public Facilities Department, Minority Needs Assessment, 1987, p.9.

The neighborhoods that increased their poverty concentration between 1980 and 1985 sometimes showed dramatic increases in the incidence of poverty. In North Dorchester and South Dorchester, the concentration of poverty increased by as much as 50 percent. Additionally, East Boston and South Boston likewise experienced a significant increase in the concentration of poverty.

There are changes which show demand shifts. The median family income between 1980 and 1985 increased 38 percent in nominal terms from $16,000 to almost $23,000. The increase was more substantial among whites whose nominal wages went up 47 percent while Black income increased by only 19 percent and Hispanics 21 percent. Asians experienced a small reduction in their nominal income. However, when these figures are translated into real dollars, there was no increase in the median income ($22,900 versus $23,000 in 1985).

The unemployment rate in the city declined from 6.5 percent to 5.0 percent in the first half of the decade following a general decline in the region's unemployment figures. However, the rate for minority workers increased by 25 percent from 8.0 to 10.0 percent. While all these figures are very good

by national standards and have improved recently, they point to weakness in job security in groups plagued by low wages, poverty and high rent burdens.

There were others whose income increased dramatically: two-earner households, for example. Thus in the Boston area, there is a clear polarization.[20] Compared with 1980, there is a larger number of low-income wage earners and a larger number of high income workers in 1986. In 1979 low wage workers (workers at 50 percent of median income or less in 1975) increased slightly from 13.9 percent to 14.5 percent.

Households who earned more than 150 percent of the median income increased from 19 percent to 23 percent. Those in the middle, however, declined as a share from 66 percent to 63 percent. Significantly, those in families with the highest incomes, $48,000 or more per year in 1985 dollars, increased from 25% to 36% of Boston area households. Nonfamily households in this category made up about one-third of those who moved into Boston housing during the first half of the decade.

These income and employment figures have significant meaning for the ability of area households to demand housing. The difficulty is greater still for Boston households.[21] In 1975, 35 percent of the households earned at least 90 percent of the amount needed to buy a home. By 1986, less than 20 percent earned the $40,000 annual income required to buy the single family house that costs more than $150,000.

In 1979, 72 percent of the renter households could afford a typical apartment in Boston which rented for under $400 per month. In 1986, this number had declined to 67% who could afford the apartment that rented for more than $800 per month. No doubt this number was held up for the poor by the public housing and assisted units (40 percent of the stock) whose rent is limited by contract to 30 percent of the tenant's income. In addition, about 40,000 units (about 17 percent of the stock) are still under rent control, an unknown fraction of which are occupied by the poor.

20. See Jean Kluver, "From Work To Home: Boston's Hotel Workers and the Prospects for Union-Sponsored Housing," MCP Thesis, MIT, June 1988, p. 15.

21. Kluver, p. 17-22.

These figures underscore the continuing problem of limited income. Moreover, they point to a polarization that sets up two competing groups for the stock of housing that, as the next section explains, did not grow before 1984 nor did it change much to match shifts in size or composition of demand. Vacancy rates did decline dramatically from more than 8 percent in 1980 to less than 5 percent since 1985.

While some growth and change in the stock did occur after 1984, it was too little to reverse the existing problems or to prevent new ones brought on by rising demand. The poor and many middle income households faced mounting problems. Efforts to help them became harder to design. The poor became poorer and the number of well-to-do increased. The poor continued to have jobs with little potential for upward mobility or real income growth.[22]

What does this demand translates into in the years between 1989 and the year 2000? Table 2 incorporates several statistics portraying the housing situation through the year 2000. The table shows continued growth in the population at a moderate clip, producing a Year 2000 population of 700,000 and total demand for additional housing of 50,000 units or more than 3300 per year.[23] These 3300 units represent those units which are required to meet the growing demand of households and normal replacement (about .4% of the stock per year.)[24]

The projections require close examination to disclose some other possibilities that could push average demand higher or lower. For example, suppose those in the group quarters population (students, inmates, nursing home

22. See Bennett Harrison, "Cracks in the Economic Miracle,"Boston Globe, June 5, 1988, A-21.

23. This BRA estimate is one of several that range between 650,000 and 710,000. In this essay, I am assuming the 700,000 number is realistic. It is realistic only if the city's and area's economy continues to grow. If the growth does not occur, the part of the expansion that is associated with in-migration especially might not materialize and growth will be less.

24. In addition to units needed for new households, units are needed to replace units that are destroyed by fire, demolished for other uses, converted to other uses, etc. This number is now less than half or of one percent. Less than 20 years ago, cities like Boston lost as much as 2.5 percent of their units each year.

Table 2: Boston's Housing Need Projections, 1980-2000

	Actual			Projected			
Item	1980	1985	Change 1980-85	1990	1995	2000	Change 1985-2000
Population	562,994	601,095	38,101	640,000	680,000	710,000	108,905
Group Quarters Pop.	39,518	49,595	10,077	52,000	54,000	56,000	6,405
Household Population	523,476	551,500	28,024	588,000	626,000	654,000	102,500
Household Size	2.40	2.45	0.05	2.40	2.35	2.30	-0.15
Households	218,457	228,838	10,381	245,000	266,383	284,348	55,510
Vacancy Rates	9.47	8.17	-1.30	7.00	6.00	5.00	-3.17
Vacant Units	22,847	20,359	(2,488)	18,441	17,003	14,966	(5,393)
Housing Units	241,304	249,197	7,893	263,441	283,386	299,314	50,117
Annual Housing Units			1,579				3,341
Total Replacement and Rehab Housing Units			4,826				20,747
Annual Replacement and Rehab Housing Units			965				1,383

Housing Units	80-85	85-90	90-95	95-2000
5 Yr. Increase	7,893	14,244	19,945	15,927
Annual Increase (Net)	1,579	2,849	3,989	3,185
5 Yr. Replacement (2%)	4,826	4,984	5,269	5,668
Annual Replacement	965	997	1,054	1,134
5 Yr. Total	2,719	19,228	25,214	21,595
Annual Total	2,544	3,846	5,043	4,319

Source: Boston Redevelopment Authority, "Boston's Housing, 1988: An Informational Report," 1988

patients, etc.) decrease 25 percent and their average household size is two (2.0 persons per household.) This would lead to a demand for an additional 6000 units over the applicable period. While reduction in the group quarters population might seem a bit farfetched, it may simply involve, for example, fewer people in nursing homes as we discover alternative ways of housing elderly individuals or find ways to keep them living independently for a longer period of time.[25] Universities may decline to build additional housing for their students forcing any growth in enrollment (especially for graduate and professional students) to be accommodated in the private market. More independent living on the part of handicapped or mentally ill persons would lead to new demand.

25. Among alternatives being talked about or tested are congregate housing, home-sharing, and more widely available home services for the elderly. All of these would make it possible for elderly who might be candidates for nursing homes to remain independent in ways that create the demand for quasi- housing units or reduce the turnover that is normally associated with the elderly. In addition if the group quarters population declines, some of the present facilities could be converted to other types of residential structures thus reducing the need for new construction to meet these needs.

We might also imagine an expansion in numbers of neighborhoods with very small household sizes. While we are now at the citywide level of about 2.45 persons per household, there are some neighborhoods in central Boston -- Beacon Hill, Back Bay and the South End -- where the growth in households is mainly among very small households which average less than 2.0 persons per household. If that pattern expands to other areas, as a consequence of more single individuals, childless couples, older people living longer and remaining independent, we could see demand (space consumption) increase beyond the level reflected by the above analysis. Since housing units are unlikely to be reconfigured to match this, the increase of space per person in these smaller households creates extra demand for new space.

It is not at all difficult to imagine that sometime in the next dozen years we could have an extended period of reduced housing production. The city has been producing units at an average rate of more than 2600 units per year between 1984 and 1987. During the early 1980s, when the nation had a deep and extended recession, Boston averaged just over 1200 units per year. For all of the years in the current decade, the city average is just shy of 2200 units per year. Given the significant and sustained production required to meet the replacement and growth needs projected above, any period of limited production would exacerbate the city's housing problem and require greater production at other times. In a tight market, this pattern encourages upward pressure on prices and rents which as we now observe makes certain types of production more difficult (non-luxury rental units,for example) even where there are non poor-households in need of housing.

The implication is that the city may fail to achieve the growth it might otherwise have had. People don't move here from other regions. Boston area households don't move to the city and Boston households go elsewhere for housing or on a temporary basis, double up. There is also the chance some households don't form.

At some other time, we might have significant undoubling or expanded household formation might occur. We have no statistics to document just how many households are doubled-up, either as part of the extended arrangements such as young people living with their parents, or separate family units sharing quarters. There is evidence nationally that young adults have

responded to price increases by lowering the rates of household formation.[26] This suggests that there is a possibility that this suppressed demand could at some point become actual.[27] While some of these households are poor and this explains why they doubled, others are not. They are not consuming a unit at present, but in the future they will form a household that is not likely to be poor.

We might well imagine a period when there are new opportunities to meet the housing needs of the doubled families or suppressed households. We might experience a period where we continue to build, but see no significant reduction in our housing supply/demand balance, because as it turns out, we have underestimated (in this case pent-up) demand. A more favorable affordability and investment climate (such as the early 70's or early to mid 1980s) would be all that is required to stimulate this possibility.

Finally, demand may be underestimated because of the significant increase in value of housing in Boston. This stimulates neighborhood confidence, supports reinvestment and forecloses the simple "sell, upgrade and move to suburbia" behavior that use to exist. People may stay put, consuming ever more space as household size declines. With less mobility, it is harder to make the household and stock adjustments which mobility facilitates.[28] As a result, new demand makes new production essential. In addition, owners may hold on to their housing longer, not only because they are physically able to (as in the case of the elderly), but also because such housing represents an asset which while valuable, is not sufficiently valuable to make it possible for them to move out of the area or into different, more "suitable"

26. We no evidence of doubling but the anecdotal testimony -- poor families sleeping on relatives couches, more people in public housing units that officially listed, and young people returning home to live with their parents. We do have evidence of a reduction in headship rates for persons under age 35. See, Joint Center for Housing Studies , The State of the Nation's Housing, 1988 (Cambridge: JCHS, 1988), p.11.

27.In Boston the population estimates by census conversion is based on estimate of households and does not identify multiple "households" sharing a housing unit.

28. The city has virtually eliminated vacant housing for rehabilitation; most non-residential buildings suitable for conversion have already been converted. While some remain, they are located in places with competing uses (i.e. commercial, industrial, etc) or which have other problems.

accommodations. For the elderly, the emergence of "reverse annuity" mortgages might make it possible for the elderly to have both their house and access to their wealth.[29] Such an option, if taken to any significant degree, serves to reduce average household size, limit turnover, increase net space consumption, and generally to tighten the market requiring that more units be produced to meet that portion of households that might otherwise be satisfied by turnover mobility.[30]

Any projection of demand that takes account of the characteristics of the population has to be judged as tentative. There are some shifts that portend big changes. The population in Boston will continue to reflect a growing predominance of the minority population. The black, Hispanic, and Asian populations is now more than a third of the city's population and continues to grow owing both to a younger population and a higher fertility rate in these groups. This population is less likely to move out of the city and immigrants to the city in recent years include a high proportion of minorities.

Finally, we can project, assuming no change in the ratio of income, as between minority and non-minority households,that the polarization of incomes already noted to be a trend in recent years will accelerate to reflect, increasingly, the growth of mainly poor and the high income households. The minority population, predominately lower income and family households will be the growth population, and the non-minority population, increasingly composed of non-family households, will be growing mainly with households at the higher end of the income scale ..

Such a scenario suggests the affordable portion of the stock needs to expand dramatically just as we have in recent years expanded the stock of

29. Beginning in April 1988, HUD sponsored a demonstration program on "equity conversion" mortgages. See "HUD to Back Reverse Mortgages for Elderly," Boston Globe, October 28, 1988, p.76. Under the program, a person aged 62 years with a $100,000 in equity (not uncommon in Boston), could receive about $500 per month as lifetime income.

30. The dynamics of consuming less space as a part of mobility is exemplified by the development of a larger number of units in given space, for example, when a small apartment is created from a larger one or from single family units. Unlike the discussion above regarding what happens with upscale mobility, small households still look for a large space for its amenity or for the investment advantage. In some areas, the stock cannot shift because of zoning and other regulations.

housing for upper income households by upgrading and condo conversion. Of greater importance is access on the part of minorities. As they grow as a share of the population, they will need access to previously all-white areas. It is unlikely that all or even most of the new units built will be affordable to low and moderate income families, though they will constitute a significant portion of the new demand. The specific share is addressed in a later section of the report.

Housing to meet the needs of the poor will come from three sources: the existing subsidized and public housing units; new assisted units added to the stock; and some mechanism to keep the non-subsidized private units that the poor presently occupy in the affordable range. This last source is critical. On one level, the observation underscores an area of conflict as poor and nonpoor households look at some of the same existing units to meet their needs.

Chapter 3

Housing Production, Maintenance and Preservation

Boston's housing stock is characterized by its varied nature. This variation is owed to its age, the historical development of the city, and decades of change in use, maintenance and tastes.

Boston is a city of renters. It has used, to a greater extent than most cities, various federal housing programs to augment its supply. In net terms, the city has added few units to its stock in recent decades though the pace has quickened since 1984. Unlike most places in the country which are dominated by single family housing units, Boston's quarter of a million dwelling units in 1985 included 22.8 percent single-unit family housing, 30.2 percent 2-4 unit private structures and 29.6 percent of the units in larger private structures. Seventeen percent of Boston's housing stock is either public housing or subsidized units. By 1987, the stock had increased to more than 257,000 units.

This section summarizes trends in the various types of units in the inventory before moving to issues of maintenance, production, and preservation of the stock in relationship to the present demand and the projected demand.

Table 3 provides a historical record of the composition of the housing stock. Embedded within the table is a variety of changes in the stock since 1970. The stock decreased during the 1960's and 1970's as the population declined. However, the loss was not as fast as the population loss owing to the maturation of the babyboomers starting in the mid-1970s. They increased household formation rate, and helped lower the average household size. The lack of production during the 1960's and 1970's except for assisted housing and a few private apartment buildings (mainly luxury units in the downtown and urban renewal areas) helps to explain why by the 1980s, we moved from a soft market to one of the nation's tightest.

Beginning in 1970, Boston doubled the number of assisted units mainly with federal housing programs under Sections 221, 236, and Section 8 and various state programs. The substantial level of production under these programs helped to accelerate demolition of more than 10,000 apartments.

Table 3: Boston Housing Stock, 1970 and Changes 1980-1985

	1-4 Family Structures			5 + Multifamily Structures					
				Assisted Housing					
	OwnOcc	PrAptl-4	Condol-4	SubsRhb	SubsNew	BHA	PrAptMF	CondoMF	Total
	A	B	C	D	E	F	G	H	I
1970	58,500	80,300	0	1,700	5,400	15,200	70,600	600	232,300
	25.2%	34.6%	0.0%	0.7%	2.3%	6.5%	30.4%	0.3%	100.0%
1980	54,600	73,100	0	10,100	12,700	17,700	68,500	4,500	241,200
	22.6%	30.3%	0.0%	4.2%	5.3%	7.3%	28.4%	1.9%	100.0%
+ New		1,100			1,500	400	1,900	800	5,700
+ Conversions	2,200	1,300	1,100	300			(13,000)	11,900	4,400
- Demolitions		(1,200)					(800)		(2,000)
1985	56,800	74,300	1,100	11,000	14,200	18,100	56,600	17,200	249,300
	22.8%	29.8%	0.4%	4.4%	5.7%	7.3%	22.7%	6.9%	100.0%

Source: Rolf Goetze and Mary Bourguignon, "Boston's Housing Stock 1970-2000," Boston Redevelopment Authority, 1988

The decline in the one-to-four unit structures is a legacy of urban renewal demolition and losses during the soft market period of the 1960's and 1970's as well as removals associated with public works projects. Loss in the private apartment sector in recent years is the flip side of the increase in the condominium inventory as most condominium units were created from the existing inventory of private apartments. According to a recent BRA analysis, in the last 3 years, the major resource for condominium development has been smaller apartment structures, rather than the large apartment buildings that dominated early conversions.[31] By 1987, condominiums totalled more than 30,000 units, but only about ten percent of these were created from newly constructed buildings (including structures converted from nonresiden-

31. See Rolf Goetze and Mary Bourguignon, Boston Housing Stock: 1970-2000, Boston: Boston Redevelopment Authority, 1988.

tial use.) The figures do not reflect units created from previously non-residential structures, such as factories and schools.[32]

The bottom panel of Table 3 summarizes the recent components of the change. There were 11,000 units added between 1980 and 1985. New multi-family units totaled 6400, including 3000 condominiums. In addition, 2900 assisted units were produced and 1700 units in one-to-four unit structures were created; 300 of these were condominiums. Not surprisingly, production has favored multifamily housing in the city which is consistent with the historical trends and the existing inventory. Conversions show a net gain of 5300 units, reflecting heavy conversion activity including large losses to the apartment stock. Only 600 units were demolished during this period, compared with several times that number per year during the 1960's and 1970's. This significant pattern of change reflects several national, as well as local trends and suggests that still other changes ought to occur.

Production of Housing and the Existing Housing Nexus

As Table 4 illustrates, the period between 1984-1987 marked a turn-around in the production of housing in the city of Boston. After two decades when net new housing units added totalled only 2000, in the last four years alone the stock has increased 5 percent to 249,000 units and yearly production rates have doubled. This is a record net production level in modern Boston's history.[33] This production occurred even as the region and the nation had a mixed production experience and little federal aid was available to produce assisted units.[34] Nationally, production of new housing represents about 1.5 percent of the existing stock in a given year. In 1987 the city started 4064 units (1.7 percent of the stock) – a percentage about average for the nation

32. See Rolf Goetze and Mary Bourguignon, "Boston Housing Stock, 1970-2000," Boston: Boston Redevelopment Authority, 1988.

33. There were years during the 1970s of high assisted housing production that produced thousands of units. This production, however, was offset by losses. But the recent activity of mixed (public and private) production is high because demolition is far less common.

34. Housing production was down during the recession of 1981 to 1983, then rebounded to about 1.5 million units for the year. Federally-assisted production declined 80 percent from the late 1970's level of more than 250,000 units per year.

but much higher than is traditional for central cities. The 1987 production represents a near even split between publicly-assisted units and private ones, though public starts are only a tiny fraction of all starts. In the banner years of assisted housing production in the late 1970s, subsidized housing starts nationally were less than 15 percent.[35]

Table 4. Net New Housing in Boston, 1980-87

YEAR	NEW UNITS
1980	1350
1981	1440
1982	915
1983	1515
1984	1570
1985	2425
1986	3715
1987	4064
Total, 1980-88	16,994
Total, 1983-88	13,289
Yearly Average, 1980-82	1235
Yearly Average, 1983-87	2658
Yearly Average, 1980-87	2124

SOURCE: City of Boston, Breaking Ground: A Report on Boston Housing Policy and Performance, April 1987, p.15; and for 1987, Memorandum from Marty Liebowitz, to Mayor Flynn, p. 2. (no date).

Table 5 gives a breakdown of the 4064 units by target population and whether they were public or private. While there is debate about who the actual beneficiaries are; the production volume is nevertheless significant. For example, while more than half of the low-income units added (891) are recovered public housing units,not new ones, the increase is still significant. It does, however, represent perhaps a non-replicable event. What the table does not show but which is true is that during 1987, an estimated 5000 units were converted to condos. As a result, these apartments were no longer available at their former rents and were not

35. As used here, assisted units include units developed with any form of subsidy, and includes recaptures from the existing stock (i. e. "mothballed" public housing units, abandoned units, etc) as well as new construction.

replaced by units with comparable rents. While there was a gross increment in the total stock, the new stock of rental housing was reduced.[36]

Table 5 also shows that production to aid the poor is almost all public; 99 percent of the assisted units were subsidized. Of the 1719 private units produced, only 28 (one and a half percent), had any benefit for nonmarket households including those of moderate income.

It is also significant that despite the increase in production, the private sector production was down 28 percent from 1986. This is no doubt the result of the major shift in tax policy in 1986 that made the production of housing, especially rental housing, financially more difficult and less rewarding. It is still too early to say what the long-term production consequences of tax reform will be, though in terms of rental housing, the result can only be to diminish investor interest in this area. The only question is how much that reduction will be.

Two major points highlighted the interrelationship of production dynamics and the dynamics of the existing inventory. First, increasingly the deck is stacked against the private development of rental housing. While the tax act has been mentioned, deregulation, a more conservative lending environment,

Table 5. 1987 Housing Production by Sector and Affordability

	Low	*Moderate*	*Middle*	*Market*	*TOTAL*
Publically-Assisted	*1435*	*356*	*192*	*362*	*2345*
Private Housing	*0*	*26*	*0*	*1693*	*1719*
TOTAL	*1435*	*382*	*192*	*2055*	*4064*

Note: 891 of the low rent units were public housing recaptures.

Source: Office of the Mayor, Liebowitz Memo, no date.

36. There is a bit of a semantic problem here. A significant but unknown number of recently converted condos were never occupied by their owners. The owners are in fact investors and the units were rented. While the units in fact are rental units they are listed as condos. In any case, the cost of the transaction and the investment expectation for these properties push up the rents compared to their pre-conversion rents.

and high construction costs are also major barriers that operate disproportionately against rental housing. The strong market that Boston has experienced in recent years is not mainly a strength that supports the new construction of rental housing as opposed to other types of housing or commercial properties. The cost of private building in the city is very high. Increasingly only luxury housing rental housing can be produced economically. Because it is rental housing, where market rents would be $1,000 per month or more, developers are obliged to be extremely cautious. At that level, rental housing has to be convertible to condominiums to be justified, since people who can pay $1,000 or more per month, before tax benefits are included, could afford to buy a unit in the city or in most suburbs.

As a result of this, we may face further decreases in private production of rental housing with new production being mainly units which are deeply subsidized. To serve the poor, multiple deep subsidies are required. This is evident in the state rental housing program where several rounds in the SHARP Program have found Boston projects unable to compete, in part, because multiple subsidies (especially federal subsidies) were not available.[37]

These events, which restrict affordable new construction and promote cautious residential investment have had the effect in recent years of increasing pressure for conversions to condominiums and,in some locations, upgrading of the rental housing in anticipation of eventual conversion to condominiums. The combination of these events further decreases the total number of apartments for rent and puts upward pressure on the rents in the remaining apartments. Perhaps paradoxically, the inability to produce rental units makes those remaining apartments more valuable as assets since the vacancy rate is low and will likely remain low. Further rent increases beyond present levels will be possible in most areas. These increases will define increased asset value.

In anticipation of this, there is already evidence that investors have bought recently converted units to be used as rental properties in anticipation of future sale as condominium units or high return as rental units. The sharp

37. The SHARP program (State Housing Assistance for Rental Production) is a shallow subsidy program. It works in Boston mainly when accompanied by free public land, produced by a nonprofit sponsor and additional subsidy such as linkage, CDBG or UDAG.

run-up in the total inventory of condos on the market in 1987 and 1988 reflects this speculation phenomena. Despite the sluggishness in the movement of the inventory, its presence is not a sign of market collapse even for the condo market (in the city.) We might well characterize this period as a transition where the new owners of small portfolios of rental property are not triple-decker owners but condo owners.

It is useful at this point to talk about conversion in the context of production, since in a conversion, no unit is produced; there is simply a bookkeeping change – a condo is "added" and an apartment is "subtracted" from the stock. Nevertheless, condominium conversion does figure into the production phenomena in the following ways. First, we know that condo conversion, among other things, is associated with rising residential investment and the enhanced quality of the stock. That is its greatest contribution. In the stock that has been converted, no event in recent years has done more to improve quality and promote private investment. Significant neighborhood benefits are derived from this as well.[38] Whether the upgrading effects can be maintained, if a substantial portion of the condominium units are maintained as rental units, is an open question and a very important one. Since the owner of each unit rented is an absentee landlord, different dynamics apply than when the owner lives in the unit (as an "owner occupant") and different still from when the multifamily structure is owned by a single investor. The amount investors are willing to spend in maintaining and upgrading the property and the interest they take in the property as part of the neighborhood is constrained by the fact that they are only one of a large number of owners in the building and is further constrained by their expectations for what their investment will bring. The investor owner of a condo unit may be satisfied as long as the unit is occupied and the rent yields an acceptable cash flow. The tight market is a disincentive to any maintenance or quality enhancement not required to keep the unit occupied. There is yet no basis to believe that unit owners take the long view though some no doubt will. We suspect that many of them hoped to sell in a

38. This is not withstanding some recent evidence of "as-is" conversion where little modernization was done and buyers may or may not have upgraded the units they bought.

relatively short period and to reap the appreciation they expected the market to provide. The interest or influence these small investors have over the building is limited and they have little at stake in the neighborhood.

By contrast, the owner of a building in single ownership has a large stake in the property and total control of decisions regarding maintenance, tenant selection, etc. In a healthy market, most of the owners of rental buildings will take the long view and follow a management policy that looks to maintaining the building as an ever more valuable asset. They will make decisions with that in mind even if sale of the property is contemplated.

It is too early to estimate what the outcome of the conversion for rentals will be. It will be perhaps premature to assume that condo conversion in the long-run benefits a neighborhood to the same extent when a renter lives in a condo unit as compared with when the unit owner lives in it. The better question may well be what is the nature and extent of the degradation of neighborhood benefit associated with investor owned condominiums. For example, if a large fraction of the condos in a given area is rented and the perception is that this is not a good place to be an owner occupant of a condo, it may well be the case that condos will be even harder to sell in those areas and that prices will not appreciate. If this happens, then conversion will be the kickoff to a new era of disinvestment that we thought had been cured by conversion. Since tax reform makes investment in rental real estate less attractive, such an event may depress prices and set them to reflect the capitalization of rents rather than their relative value as owner occupied units. Some may not be saleable without significant price concessions. This is a scenario for a very localized real estate bust. Instead of responsibility being fractured as between the several buildings in the neighborhood, responsibility is fractured even more as each unit owners figures out their own "end-game" strategy.[39] Especially at risk are some of the more

39. Based on Boston's past experience, the strategies might include renting the units to larger and larger groups of students, harassing tenants who cannot pay potentially higher rents until they move, allowing deterioration to mount, and selecting tenants who won't or can't complain (i.e. illegal aliens, middleclass drug operative seeking cover or students,etc.) Banks and the tax collectors may find their patience tested with mounting delinquencies. Banks and insurance companies might find growing evidence of fraud (in insurance claims and documentation of refinancing applications.)

recent condo conversions that are almost exclusively investor dominated, those with older units in largely unrenovated buildings, areas with high percentage of renters traditionally, areas with limited or spotty reinvestment in the recent strong market, and areas prone to transient occupancy.

The next few years will be very important whether condo conversion is the shot in the arm that benefits the housing market or whether it is the latest in a series of phenomena that underscore problems in the housing market and production system.

Condo conversion also introduces conversion inflation in the local housing market. This in turn influences what is feasible to build. This inflation occurs when a unit is converted and the rent has to be higher to reflect the new economics of tax reform (i.e., higher prices, higher interest rates, higher expected cash return, etc.) This rent level gradually filters into the market of nearby or comparable units bumping up rents and increasing the prices of 1-4 unit structures that while not yet converted offer the potential for similar conversion. Extreme cases of this appeared in the South End when in less than a decade, a typical shell went from being priced to reflect a single family unit, then to reflect the value of 2-4 rental units, and then by the mid-1980s, to reflect the value of condo conversion. Each of these transitions is associated with dramatically higher prices, few options for affordable development and new speculation. When units are rented, they fetch dramatically higher rents. There are no major incremental gains in quality after the initial renovation. Displacement of families follows and new occupants are smaller households who trade space for location near downtown.

Condominium conversion acts to dampen the production of new market units, first by offering cheaper alternatives in the existing stock, then by presenting a cheaper or more "charming" version of an upscale rental unit than can be matched in new construction. In the present situation, the owner investor of a converted condominium unit can afford to charge a lower rent than would be charged if someone were to build a similar sized unit in the same market area. It is no wonder that in recent years conversion has been far preferred to either continued rental of multifamily units or construction of new rental units.

If the goal of the city is to promote production of units to meet the present and future demand as well as to preserve resources for incumbents,

the extent that any of these points is true with conversion, makes the production of new private units all the more difficult and the urgency of controlling (but not forbidding) conversions all the more important. It also makes subsidized housing financially more difficult, since the production factors, especially land and labor, are raised for all housing.

We may be entering a period when little new rental housing production is possible except in carefully selected niches in the market, in choice locations, or areas with high amenity. Alternately, production requires deeper and multiple subsidies.

It is not in the city's interest for such dynamics to exist given the requirement mentioned above for new production. Even if subsidies are available to make new production possible, conservatively, the present dynamic simply increases the need for subsidy. Not only are resources needed for low-income families (who need deep and multiple subsidies); shallow or moderate subsidies are needed for those households who ordinarily could afford unassisted housing, but who need help now because they earn too little to afford housing on this high plateau created by an inflated market. Unlike the period 1965-1980, there are no federal deep subsidy programs, and state resources to produce new affordable housing, although generous compared to other states, is limited compared to the total need.

Increasingly the easier and cheaper sources of production of subsidized units have been used up. Compared with five years ago, we have little left in vacant housing which can be rehabilitated cheaply. We have used most of the existing resources (such as former schools) in the city's control. What remains largely as a starting resource to promote affordable housing is a variety of development sites. Some of these are small sites in built up residential areas.[40] while others are large sites broadly distributed in the city

40. See Jack Malone, "City is Housing Partner in 747 Lots," Boston Ledger, January 23, 1988, p.31. These 747 lots were selected from the city's inventory and were determined to be buildable and had at least 3500 square feet. These sites are made available to developers and community groups in the context of specific development proposals. This process replaces an auction policy in which little development resulted from the city's land disposition program.

Table 6. Boston Residential Potential for Vacant Land, by Neighborhood, 1988

Neighborhood	*Minimum Number of units*	*Minimum Number on Public Land**
Charlestown	*380*	*160*
West Roxbury	*357*	*26*
Roslindale	*779*	*17*
Mattapan	*1498*	*39*
Hyde Park	*2563*	*1063*
Roxbury	*5706*	*2376*
South Dorchester	*1670*	*379*
North Dorchester	*2200*	*603*
Franklin Field	*2441*	*665*
South Boston	*599*	*181*
East Boston	*578*	*44*
TOTAL	*18,771*	*5553*
Percent on Public Land		*29.5*

** Includes parcels owned by the City of Boston or the Boston Redevelopment Authority.*

Note: These are the minimum number of units which the BRA estimates can be developed on the sites given current zoning and assuming the average unit size to be 1000 sq. ft. This estimate does not take into account parking and open space requirements or the various IPOD guidelines under development in Boston neighborhoods.

Source: BRA estimates from Residential Potential, 1988.

and owned by the state or private owners.[41] These large sites require large scale development projects to be executed in connection with area and district plans. In these sites, the full cost of development except possibly land (in some cases), will have to be reflected in prices and rents. At $80,000-120,000 per unit, the level of subsidy required to assist Boston's needy households is substantial. Table 6 lists the residential potential for vacant parcels already zoned for housing. There are also many large sites with substantial residential potential.[42] These sites are located all over the

41. See various reports by Mary Bourguignon and Deborah Oriola under the series title of "Residential Potential: Preliminary Analysis," Boston: BRA, 1987.

42. These sites are located for example in the Financial District, Fort Point Channel, Midtown, Crosstown, Charlestown Navy Yard, the Cultural District, etc and total perhaps 17 million square feet or space for at least 2000 units.

city. These are also sites that have competing residential uses and the potential for other uses than housing.

All total, the city appears to have residential potential, using current zoning standards, for at least 21,000 units of housing (including Project 747, residential sites, major sites. There may be some overlap in these categories.) These are minimum numbers.

Given that the projected demand over the next 15 years is for substantially more housing, the obvious question is whether space is a constraint on housing development. If land is used inefficiently as densities are altered, space will be a constraint. Development out of character with neighborhoods would worsen community appeareance snarl traffic and cause stress to aging, sometimes overtaxed infrastructure.

If available sites are considered resources to be managed in connection with a good comprehensive plan for the city – both mixed use areas and residential communities – development can occur in ways that reinforce the fabric of the city, reuse obsolete tracts, create new residential communities and maintain or even enhance the historic fabric of the city. The size of the projected future population is not out of character for the city. A projected population of 700,000 in the year 2000 is still 100,000 less than the city's peak population in 1950.

The numbers on residential potential also point to the extent of public influence. The city has control of the Project 747 sites and substantial influence on the shape of development in the large sites which usually require some public action (i. e. zoning change, subsidy) if they are to be developed. Linkage regulations are another source of leverage as is infrastructure considerations.

For the largest segment of potential residential space, however, the city controls less than 30 percent of the 18,000 parcels. For the most part, these parcels are already zoned to allow housing, though in some cases, feasible development might require a variance and pending Interim Planning Overlay District also figure in the nature of their potential. Most of the space over which the city has influence is in Roxbury, Dorchester, South End, and Hyde

Park. City control is critical and the concentration of these sites underscores the need for both partnership and subsidy.[43]

The full residential potential is not limited to vacant land. Developments in other cities and in Boston suggest there is a significant but unquantifiable level of shelter that can be obtained from the existing stock. More dense occupancy of existing structures and accessory apartments are two examples of how more people can be housed in the existing residential stock.[44] While this potential is not unlimited (zoning, parking and infrastructure are public limitations and private preferences also apply), this is an additional source which given the current planning process in Boston and the projections for demand in this paper, should be given careful scrutiny.

To conclude this discussion about the connection between housing production and issues of the existing stock, we first must summarize how housing needs of various income groups have been met in the past and how these sources are met at present. These are summarized in Figure 1. What it illustrates is that the units needed for low and moderate income groups are moving in the opposite direction (that is, declining in number) to the size of the client groups which are stable or growing. This points to an increasing mismatch if production or policy does not intervene.

43. There are three constraints to the development of these sites: assembly of sites suitable for development, market conditions in the area, and the price of land. Assembly is of central importance. Recently the BRA granted the power of eminent domain to the Dudley Neighborhood Initiative as part of a strategy to promote residential development by giving a local group the power to assemble parcel at the appropriate scale for development.

44. For an preliminary exploration, see Jacques Gordon, "Hidden Housing Production: Residential Conversion Activity in the City of Boston," Ph.D. Dissertation, Department of Urban Studies, MIT, 1986. For a national perspective, see Patrick Hare, "Rethinking Single-family Zoning: Growing Old in American Neighborhoods," New England Journal of Human Services, Summer 1981, pp. 32-35.

Figure 1. Traditional Housing Sources for Various Income Groups in Boston

LOW INCOME HOUSEHOLDS (The low income population is increasing.)

1. *Public Housing* (stable, to decline in number*)
2. *Low Rent Private Apartments* (major decline)
3. *Filtering Down of "workingclass housing"*(no longer exists as resource for additional poor families**)
4. *Assisted Housing* (stable to small growth with risk of severe loss as contracts expire)

WORKING CLASS/MODERATE INCOME HOUSEHOLDS (stable)

1. *Private moderate rent Apartments* (declining)
2. *Assisted Units* (stable but risk of loss)
3. *Suburban Housing* (prices up, supply inadequate)
4. *Filtered Units from higher income groups* (none)

MIDDLE INCOME HOUSEHOLDS (declining)

1. *Selected Boston Housing* such as West Roxbury, Allston-Brighton (supply stable, prices high, moderate price continues)
2. *New Suburban Housing* (Prices up, Supply inadequate)
3. *Older Suburban Housing* (Prices Up, Supply Stable)
4. *New Housing in the City* (limited before 1983)

UPPER INCOME HOUSEHOLDS (increasing)

1. *Traditional Upper Income Housing* areas such as Beacon Hill (stable supply)
2. *Suburban Housing* (Limited Growth)
3. *New Luxury Housing in Boston* (Moderate Growth).

* While a small number of state-supported units are under consideration for development, several hundred units are mothballed and can be occupied only with an expenditure of more than $50,000 per units.)
** Some of the units in the leased housing program do fit this category but the experience families have in getting accepted even with certificates, the gentrification of these properties, and the potential non renewal of existing contracts (because of lack of funds or owner reluctance) suggest this is not a source by which very much future need can be addressed.

Generally, there are four ways that housing needs of families have been met in the past. First, the families saved their money and were then able, after a period of time, to obtain the kind of housing they needed or wanted. This applied mainly to home ownership. Renters might wait until their income increased or a member of the family took on another or a better job.

Second, families benefited from the filtering down of units vacated by higher income households whose income made it possible for them to take advantage of new more expensive units. Third, poor families benefited from the substantial level of production under various housing and assistance programs during the 1960s and 1970s.

Finally, families were able to meet their housing needs by changing their tastes or settling for a smaller unit, a lower quality unit or a less expensive neighborhood. None of the options are easily pursued in Boston today and some of them no longer exist.

Boston is moving towards a different set of circumstances concerning these possibilities. Rents and prices are such that saving is not an effective short or mid-term strategy for the typical family. Sharing housing is at best temporary for families. Mutual aid works mainly for those who have well-off and generous families. There is a declining number of private rental units, growing competition (among all income renters) for the limited number of private units, fewer and shallower subsidies, and little new low-cost housing. Moreover, the closing of suburban opportunities, either for cheap housing or rental apartments, means most households in the city, especially those who earn less than the city's median income, face a difficult time without obvious relief.

The income mix in the city suggests the city needs a distribution of production (including rehabilitation and conversion accounting) that is favorable to low and moderate households with a fraction targeted to those with low income. The distribution should also address the needs of higher income groups. Their interests are more easily addressed in the marketplace. Looked at this way, inclusionary housing is not a choice the city has; it is a necessity.

There are three windows that will help us see what might work regarding the distribution of needed units among different groups. First, we can

review the distribution of income and assign the share of demand to the various groups. This method assumes by and large that over a period of time, units will be built for these broad groups. Based on the 1985 Boston Household Survey, 47% of the households had income less than $15,000, 31% between $15,000 and $30,000, 12% $30,000 to $40,000, and 10% had incomes of $40,000 or more. This method suggests that more than three quarters (78 percent) of the units should be affordable to households who earn less than $30,000. This method obviously requires that there be subsidies to make this allocation possible since unassisted units to serve this group cannot be produced in the city. No housing policy would produce this result without substantial public investment.

A second way of estimating is to look at those who move into Boston housing, including both in-mover and the mobile section of the incumbent population. Again using 1985 data, 44% of the movers earn between $10,000 and $30,000. The poor are less mobile and the well off are very mobile. The well off are not large enough as a group to absorb all the new housing, however, and the filtering down of units for those who live in the city will not likely prove beneficial especially to the poor.

The third method cannot be quantified, but includes those households who need housing -- the homeless, the rent burdened, doubled up families and individuals, and new families. Since these include groups of unknown size (but certain presence) and overlapping categories, we cannot estimate their magnitude. It is the case,however, that they have only modest incomes; units built for them would have to be deeply subsidized.

Looking at all these methods, the share of future demand that will require subsidy is at least half and perhaps as much as three-quarters. While the share can be reduced to the extent that building for upper income households triggers filtering, we have suggested above that filtering may not work very well in the current market. (There is not enough demand for purely market housing to trigger enough filtering to serve nonmarket households.) As a practical matter, units will have to be injected in the market for roughly the population to be served by a housing policy.

What would such a production scheme cost? Assuming two-thirds of the units need to be affordable to those earning $30,000 or less (in current

dollars), the annual subsidy cost of an affordable housing program would be almost $94 million.[45] This estimate is based on the following calculation:

3300 units per year through year 2000
2211 units per year need to be affordable (67%)
1106 units affordable units for low income households (50%)
1106 units affordable to moderate income households (50%)

Costs

1106 low income units @50,000/unit	$55.3m
1106 moderate income units @30,000/units	$33.2m
Total	$88.5m

The actual production experience in Boston for 1987 (Table 5) shows only 55 percent affordable units. It is not clear if the city or state can replicate even that experience as half the low income units represented perhaps the one-time event of recapturing mothballed BHA units. If these units are excluded, we got only 30 percent are low and moderate income. This modest effort under the circumstances is still significant and would over time go a long way toward meeting the need if it could be sustained.[46] Given the state fiscal crisis and the lack of federal resources, sustaining such an effort is difficult.

Rumors of a Boston Real Estate Bust

There is growing reference in the media to a "real estate bust" in Boston. The proponents of this view overstate the nature and dimensions of the real change in the real estate market. After a four year period of hyperactivity, the Boston market has settled into a less frantic but still healthy pace. While there are disquieting aspects to the recent trends in real estate, they

45. For the sake of simplicity, this estimate assumes the subsidy cost is a onetime amount sufficient to keep the units affordable. In actuality, this cost will have to covered in a variety of ways and over an extended period.

46. The 1988 experience suggests the magnitude of the challenge to sustain even modest progress. During the past year – based on partial year numbers – production level plunged significantly with significant reductions in large projects and low and moderate income housing. See Brian Mooney, "City Has 41% Decline in Building Permits," Boston Globe November 11, 1988, p.70.

hardly add up to a fundamental erosion in the basic strength of the market or threaten the viability of well conceived projects that may be offered even now to meet housing needs. Underlined below are some popular conclusions, where facts are transformed into incorrect or misleading notions about the housing issues discussed in this paper.

1. *There is a growing inventory of housing units on the market that in time will be the result of depressed prices.*

It is true there is a growing inventory of units on the market and that the average stay on the market is growing. The problem is most serious in some suburban communities than it is in the city In Boston, the problem is concentrated in the newer more speculative sectors of the market and in condominiums. Generally, units continue to sell but at prices that do not reflect the double digit rates of inflation common in the mid-80s but more modest rates that compare favorably with normal times, national trends and the current high interest rates (including adjustable rate mortgages). While the "boom" is over, the alternative is not "bust." Non condo units continue to escalate in value and certain types of housing still sell quickly.

2. *Commercial development in the core is sluggish and job growth in the metro area suggest optimistic projections for housing are exaggerated.*

While the underlying facts are true, the conclusion doesn't follow. There is a critical labor shortage in a wide variety of jobs and sluggish commercial development is part of a cycle where office development has moved faster than absorption. The vacancy rate in the housing market, however, is still under the 5 percent level that generally defines need for further development. Vacancy in the office sector while higher than in recent years, is not a crisis level nor does it appear is saddled with superfluous buildings. A more careful review of the facts suggests a lull continuing for 12-18 months before regaining some of the lost momentum. Both Washington and Los Angeles have had cycles which appropriate what appears to be the Boston pattern. After a quieter period in the mid-1980s, they are in the midst of new booms. With the tens of thousands of jobs to be stimulated over a 10 year period by the Harbor cleanup, depression of the artery and other projects, development need not occur at the pace of the last decade to be truly robust. Indeed, the beginning of major work in the large projects could with a couple of slack years like 1989 could trigger a new round of heated housing demand and office space absorption.

3. *There is a national shift in top real estate markets of larger national firms (some using mainly foreign dollars) developing assets which are then sold rather that held in portfolio. The assumption is such developers area not sensitive to local economic development. The developers cannot be counted on to undertake projects that might be responsive to critical local goals such as housing and especially low and moderate income housing.*

The emergence of such firms is a fact and Boston is one of the top markets for their investment. It is also true that these firms develop in connection with a national investment strategy rather than as major and long term players in a local game. While there are many ramifications of this trend with respect to housing, it suggests that the city has to rely on smaller and local companies to take the initiatives in housing development that are deemed critical. When large developers are involved as they must be in the 15-20 major development sites, the city should try to tie designation of developer status to some arrangement that better ties the developer to the city and its developer goals.

The most important point about this trend is that the nature of Boston's housing stock and the configuration of housing development opportunities suggests most projects will be small to moderate in size anyway and therefore of little interest to large firms. Boston housing (with the exception of large luxury buildings and some of the early subsidized projects) have always been built by small to medium sized local firms and there is no reason to believe that won't continue. The message of the trend is to support smaller local development entities, including a larger role for minority firms and nonprofit developers whose track record is already several thousand units with some of them being large projects by Boston standards (250 or more units.) It is the health of these producers that is of concern because they are less attractive to major banks and investors and need the financial and other support that the city can provide or stimulate.

4. *Banks are in big trouble because of "bad" real estate loans and will be more conservative in their evaluation of development proposals.*

The lending troubles described in the media do not refer to any fundamental weakness in the Boston area. While there are stories of area banks being overextended in real estate and institutions with projects that are in trouble, this is still isolated and to a significant degree associated with ill-conceived or untimely projects or with banks that had other problems made worse by imprudent lending decisions.

There are regulatory pressures for lenders to become more conservative, undermining some housing initiatives. These are not a function of a

Boston problem but national trends or concerns about banking practices in the wake of deregulation. The new rules have far more to do with national regulatory nervousness about real estate in Texas or Alaska than in Back Bay or Dorchester. They cast a chill over the region but do not, by themselves, freeze out worthwhile development or development groups. There is reason to be concerned that lender sensitivity may trigger excessive caution the that discriminates against Boston neighborhoods.

5. *Tax Reform has killed the development of rental housing.*

This is real and a serious problem for Boston since more than two-thirds of households are renters. Presently, it is virtually impossible to develop rental housing that is not luxury housing or at least partially subsidized. Tax reform is a new fact but the development of private rental housing was difficult before tax reform. The policy section which comes at the end of this paper is largely directed toward identifying ways to compensate for this problem and a major point of this paper is business as usual is not enough. This predicament is the reason Boston cannot leave housing to the market because in this most crucial area, the market will not deliver rental units that are neither luxury nor subsidized.

The facts, in context, do not add up to a housing bust in Boston. The market is healthy. They do point, however, to two other conclusions that are indeed ominous. First, the activity that defined the boom included creative financing, which the new tax and investment regime makes more difficult. Second, neither the market on its own nor external help (from the federal or state government) is likely to give the city the necessary resources for nonprofit housing development. While the real estate market won't fall apart, neither will it by itself perform as an engine of housing opportunity.

Preservation of the Boston Housing Stock

Recent research as well suggests that for the poor, preservation of existing affordable stock is equally important as production of new housing.[47] Boston

47. For one of the first comprehensive portraits of the preservation challenge, see Phillip L. Clay, At Risk of Loss: The Endangered Future of Low Rent Housing Resources (Washington: Neighborhood Reinvestment Corporation, 1987.)

is already short of resources for the poor and most poor households in the private market pay a burdensome amount for rent. The problem is national and not limited to high cost areas like Boston. There is a large number of homeless people and an unknown number of families who are doubled up.[48] If we lose resources that these families have counted on, large numbers more will be homeless or financially strapped. This section examines the type of low rent housing resources at risk, the types of risk they face, the relationship between preservation, and other housing issues in Boston.

Preservation of Public Housing. The first source of loss is in the public housing sector where Boston has more than 16,000 units. An additional 14,000 families are on the waiting list. The public housing population includes many of the lowest income families and elderly persons in the city. Their median income places them at less than 40 percent of city median income. These families would find it virtually impossible to find private housing that they could afford. Because of a lack of skills, experience and other factors, they are unlikely to have any significant growth in real income. To house them outside of public housing stock would require a subsidy of almost $9000 per family per year. Given the tightness of the housing market, they may not even be able to find large units they require, even if they could afford them, as for example, with a housing voucher. In addition, this population is often victim of multiple forms of bias -- racial, family size, and welfare status.

There is a variety of loss possibilities and experiences in the public housing stock. In public housing projects that experienced redevelopment and modernization, the total number of units is often reduced from the "as built" total. Columbia Point went from 1500 low cost units to 400 such units in its reincarnation as Harbor Point. In the Commonwealth and other projects undergoing redevelopment, losses of 15 percent occurred. We have also lost units by combining small apartments into larger apartments and by assigning pubic housing units for such nonresidential purposes as

48. See Langley Keyes, "Housing and Homeless," MIT Housing Policy Papers, MIT Center for Real Estate Development #15, 1988. Also see Alliance Housing Council, Housing and Homelessness: A Report of the National Alliance to End Homelessness, 1988.

facilities for social services or community space. There is a continued mothballing of public housing units which can be retrieved only at great cost.[49] These units become permanent losses if we are not able to find sufficient modernization funds to meet the requirement for this inventory.

The sale of public housing units to tenants represents possible loss which Boston has not experienced. The Reagan administration encouraged such sales and the new adminstration also seems committed to this idea. When sales occur, they will be opportunities for higher income public housing tenants to escape public housing with their units, thus reducing the low rent stock. Thus far, Boston has not participated in this initiative which is active in at least 15 cities[50].

Finally, the public housing stands at risk of outright demolition. The concern in this area was sufficient to prompt the Congress to include provisions of the Housing Act of 1987 to prohibit such demolition (for two years) except under stringent regulations requiring one-for-one replacement. This was prompted by scattered cases of demolition or proposed demolition, including major ones in Newark (one half of the stock) and Chicago, where the mayor opposed a plan to demolish nearly 2000 units of public housing to make room for upscale lakefront development.

Preservation of the Assisted Stock. In the assisted stock, there is a variety of properties which are discussed separately in this section. First, in the older housing stock (units in the Section 221, 236, etc.) there are two major types of losses that the city faces -- defaults and prepayments.[51] Prepayment of

49. Based on experience with earlier projects, the per units costs for this major redevelopment of a mothballed unit is $70,000 or more per unit.

50. For the past two years has sponsored the Homeownership Demonstration Program in which local authorities volunteered to sell more than 1500 housing units to low income tenants at a fraction of their value.

51. The Low Income Housing Preservation Commission estimates that nationally, 38 percent of these units will prepay their mortgage and convert to market use. They estimate 43 percent will default because the expiration of subsidy contracts and other financial events will create a gap between operating and debt costs on the one hand, and gross revenues, on the other. See, National Low Income Housing Preservation Commission, Preventing the Disappearance of Low Income Housing (Washington: NLIHPC, 1988.)

existing mortgages and upgrading of these units to serve a private market either as more upscale rental or as condo units are definite possibilities in Boston. Tenants who occupy such units (typically families earning less than half the median income), would not be able to pay the new rents. Even those families who earn between 50 and 80 percent of median income might find it impossible to pay rents that may be more than twice the present amount. Developments in the South End, West Roxbury, Allston and Brighton, among other locations, face this potential prospect. Local legislation to prevent this by the imposition of rent control may be effective in preventing this possibility.

In anticipation of prepayment at the end of 20 years, project owners may change their policies toward tenants and management to position themselves. Such anticipatory behavior by investors will be a disadvantage to tenants. This may occur even before the actual prepayment occurs.

The second source of loss in this older assisted inventory is the loss by default. This occurs as a combination of termination of subsidy contracts, bankruptcy (as second notes mature), or accumulated deferred maintenance makes it impossible for the project to earn revenues equal to their operating and debt costs. In such cases the project defaults. Projects in poor condition in lower rent areas are at risk for this prospect. While the tenants may not be evicted immediately from such defaulting properties, they will eventually be evicted if the default is not cured. Curing will require a substantial new injection of funds, sometimes new capital to fix physical problems, but in nearly all cases to replace operating subsidies.

It is also important to point out that default is not a single or discrete occurrence, but a process which begins to occur as soon as project owners and investors determine that their project may be in difficulty at some point in the not too distant future. Whenever this is realized, perhaps two, three, or five years before the actual default, they start to defer maintenance and fail to provide certain services critical to quality of life for tenants and the physical integrity of the project.[52] This makes default not just a financial

52. The history of the "Granites" demonstrates this. Uncured financial problems resulted in a period of 7 years or more in which the projects deteriorated greatly; the cost of the final solution was much higher than if the restructuring had occurred when the problems first became known.

event, but an integral part of the market dynamic in effected areas. Default and prepayment represent responses to circumstances – some originating in the federal programs that sponsored them, but others in the market and neighborhood in which the projects exist.

There is also the risk of loss in the Section 8 New Construction and Substantial Rehabilitated properties. These projects were all built in the last 15 years and have subsidy contracts that start to expire in less than 5 years. Theoretically, they face the same possibilities projected for the older assisted units where defaults will occur. No analysis has yet been made of the dimensions of this risk except to note that Boston has several thousand units in this program.

Compared to older projects, many of these Section 8 projects were built in areas where they are very expensive contrasted with the value of the unassisted housing in their neighborhood and, further they carry mortgages often in excess of $50,000 per unit compared with $10,000 for older projects. Converting these to market use may not be feasible. Curing defaults will be more expensive since rents are strictly limited to 30 percent of the tenant's income. Under such circumstances, the poor tenants of these properties cannot afford to pay a rent covering both the debt service and the operating costs. In these cases, perhaps to a greater extent than in the older projects, the underlying economics of the project are unfavorable to the poor without continued deep subsidies. Default may well be certain without contract extensions. Presently there is no authority for the federal government to extend them. Overall, the universe of private subsidized housing (excluding public housing) is large – 27,200 units in Boston.[53]

Boston also has more than 6000 units of Existing Section 8 (Certificate program) where the government pays private owners the difference between 30 percent of tenant income and the fair market rent.[54] These properties

53. For a full description of this, see Rolf Goetze, Boston Housing in the 1980s: Challenge and Opportunity (Boston: Boston Redevelopment Authority, 1980), Chapter 7.

54. These are private units with lease agreements between the BHA and the owner. Unlike assisted projects, there is not production assistance and the owner is free to disassociate from the program at the end of the contract. Because there is no hold on the unit, this should not be considered part of the stock permanently available to the poor.

face three risks. First, the contracts under which these units are available will end at some point during the mid 1990s. Many of the contracts with owners were entered before the recent real estate boom. Further, private owners may exercise the option to withdraw from participation in this program, even though the subsidies are available because private tenants are more lucrative. These units may also be lost when a new owner takes over. The new owner may choose not to participate in tenant subsidy programs where potential market rents are higher than what the government is willing to subsidize.

Finally, these units may be lost to attrition resulting from poor quality. There has not been a study of the quality of these units, but given their location, it is unlikely that many of these units, even with subsidy, could continue for another extended period without some reinvestment. The question is whether the owners of these properties, even with the promise of five year contracts, would feel obliged to make the reinvestment in their properties in order to meet minimum physical standards. Studies of experimental housing allowance suggests they won't. In such cases, property owners may withdraw as part of the general disinvestment or they may withdraw and reinvest on the assumption they can take higher income tenants. This possibility will be particularly true in neighborhoods where real market rents are substantially higher than the so-called "fair market rent" that is paid the owners now.

If the city is not vigilant, some of the units may not be withdrawn from the program, but the owners may let the building run down with the result that tenants pay a premium rent for a substandard unit.

In summary, regarding the assisted stock, the route to significant losses is well-defined without a set of policies to reverse it. As information about the preservation issue spreads, owners will determine what their own situation is. If they discover they are coming to the end of their contract and it is not clear there will be new opportunities to extend them at a reasonable level compared with what they can get outside of government programs, they may then begin playing an end game, where the loss process happens first in terms of successive reductions of rental services, even as tenants continue to live in the units and landlords continue to collect their subsidies.

If there is an interlude between the time when the owner/investor makes his decisions and new resources are available, Boston and other cities could find that many of the units they were counting on have upgraded to higher income tenants or moved towards disinvestment.

The National Low-Income Housing Preservation Commission concludes that it is most cost effective to continue to provide subsidies and preserve these units as part of the assisted inventory. Preservation is more cost effective than either providing vouchers to families or replacing the units which are lost. This national assessment applies to Boston even more than the commission concludes is true nationally because the cost of any solution other than preservation (such as producing new units or providing cash subsidies to displaced tenants) is much higher in Boston than nationally.

On the issue of preservation, there remain still some unanswered questions. There was a consensus by the bipartisan commission on the importance of preserving the stock rather than just assisting families who might be harmed if units are lost. There is agreement that direct and project-oriented approaches are required for units facing default and prepayment. There is some sense of the magnitude cost of the preservation of the older units.

However, several important questions remain for Boston. What type and mixture of subsidies are required to preserve the assisted stock given the high cost of preservation and the low income of Boston's needy? How are the responsibilities (i.e., project workouts, financing, etc.) to be shared between the federal government (that has principle financial and legal responsibility for those projects that are federally subsidized), the state (which also has some responsibility where state financing is involved and some limited discretionary resources), and local government (which has interest but little legal authority or financial resources) How does the city of Boston as advocate for its citizens approach the state and federal government?

How does the Congress frame a national policy which takes account of the varied project, neighborhood, and owner characteristics that need to be taken into account in a complex market like Boston's where these units constitute more than 10 percent of all units and where their fortunes dramatically affect market dynamics? Who will be the new owners of units that go into default? How do we expand the capacity of Boston's nonprofit sector to

play a role, especially given their growing capacity, but also in light of their limitations? How do we sustain the wavering interest in low-income housing by for-profit developers on whom we will have to rely? How do we involve new developers (nonprofit and for profit) that we will need as projects turnover?

In addition, the present analysis looks only at preservation of the older assisted stock. In less than five years, we will have to address the same preservation questions to the newer Section 8 inventory. How do we frame preservation policy to take account, not just of the universe of the older projects, but also Section 8 units and state financed projects? Given that the preservation issue will unfold over a 15 year period, how do we incorporate this fact? Finally, given the continuing need to expand the number of housing units for the poor, how do we incorporate preservation into the larger housing policy that includes production, homeownership promotion, fair housing, and housing for special groups such as the homeless and elderly? Given that these questions apply to one-sixth of the total stock in the city and perhaps half of the units on which the very poor depend, the answers to these questions are of major consequence.

Private Unassisted Units. The inventory of private unassisted low rent apartments in Boston is the most critical housing resource for the poor. Most low and moderate income families live in unassisted, not public or assisted housing. This housing is available only as a consequence of public/private decisions. In this section, we evaluate the status of a variety of types of housing in this part of the inventory. In each case, attention focuses on the dynamics related to their availability to the poor and the risk of losing them as lower cost resources. The types considered include: rooming houses and shelters, apartments in the 1-4 unit structures and private apartment buildings.

Roominghouse Units and Shelters. While the city had more than 25,000 rooming house units in 1950, there were less than 5,000 such units in 1985. These remaining units are at risk because of the possibilities of reinvestment, attrition due to poor quality and "higher use" and cost pressures that will be

faced as these properties turnover. Some of them are licensed and on a fully economic basis, cannot be sustained as inexpensive decent housing.

There is no basis for being sanguine about the possibility for the production of new rooming house units or fully private single room occupancy units under any foreseeable investment scenario in the Boston housing market. This inventory is especially important to single and low income individuals. The increase in the homeless population -- from a negligible number in the early 1980s to an official estimate of almost 3500 in 1988 -- is partly explained by the loss of units in this part of the inventory.

The only possible offset for this section of the inventory is to build new rooming-houses units, which is unlikely, or to convert parts of existing inventory to rooming houses, which again is only slightly more likely given neighborhood opposition, zoning and economics. There is considerable evidence that homeowners and investors have created small accessory or studio units but these units are not "rooms" and their rents and tenant selection criteria tend to reflect the rents and demographics in the neighborhood.[55]

Boston also relies on shelters for its homeless and housing emergency cases. As illustrated in Table 7, shelter beds totalled 2113 in 1987. We cannot predict a major loss in this inventory as long as support for homeless initiatives holds up. But there may be some attrition, particularly in facilities that are temporary in this use or which require new resources if they are to serve long-term as shelter resources. Opposition to building shelters is strong and resources for such transitional housing are scarce.

One-to-Four Unit Buildings. We also rely on the 1-4 unit privately-owned structures to provide housing to the poor. This part of the inventory is under the most serious challenge for all the reasons cited earlier. This is the inventory from the most recent surge in condo conversion drew units. It is

55. See Jacques Gordon, "Hidden Housing Production: Residential Conversion Activity in the City Of Boston." Ph.D Thesis in Urban Studies at MIT, 1987, pp. 136-192. For a metropolitan perspective, see MAPC Hidden Housing Supply: Accessory Apartments in the Boston Area (Boston: MAPC, 1988.) The study noted that of the owner present small households (1 or 2 persons), 40 percent are age 65 or older.

TABLE 7: Shelter Beds in Boston, 1987

Adult Shelter Beds	*1170*
Family Shelter Beds	*400*
Transitional/SRO Beds	*543*
TOTAL	*2113*

NOTE: Adult shelters include, for example, Pine Street Inn, Shattuck, Long Island, and about a dozen smaller places. Family shelters include 15 shelters with 50 or fewer beds. Transitional housing and SROs include more than a dozen facilities all with less than 50 beds, plus the new Tree of Life facility with a capacity of 250 beds.

SOURCE: Office of the Mayor Breaking Ground: A Report on Boston Housing and Policy and Performance , p.62.

the area for substantial reinvestment and price/rent appreciation. This is the most attractive stock for owner-occupant purchase. While the market has flattened in recent quarters, there is no reason to believe that an end of the frenetic period in real estate will result in significant price or rent reductions. All we have seen in recent quarters is moderation in appreciation.

This stock is located where a substantial amount of incumbent homeownership is concentrated. As turnover occurs, the inflation in rents resulting from turnovers will drive out poor and even working class families. As normal owner turnover occurs, turnover inflation alone will change the investment character of this housing within a few short years. To give an idea of where we are starting take, for example, a good quality, modernized triple-decker selling in 1988 for $185,000. The carrying costs dictates a monthly cost (excluding utilities and the amortized costs of any improvements) of $621 for each of the three units.[56] A rent at this level requires an income of almost $30,000 per year and is therefore burdensome to most Boston renter families. At its pre-1985 value, however, the rent needed to be only half that amount. This is the scenario we can expect to be common.

56. This assumes a mortgage of $166,650, P&I of $1415, $150 per month for taxes and insurance, and a conservative $150 per month for ordinary maintenance, fees, etc. This does not include a cash return on investment or take account of tax concerns of the owner.

There will also be some losses in this stock in conjunction with the normal attrition of low quality units, which while insubstantial compared with the 60s, nevertheless can account for several hundred units per year. They are unlikely to be replaced in their neighborhood except in connection with deep subsidy or with units only high income households can afford.

In low quality units there is less chance for significant increase in the rents.[57] Tenants often are already paying a premium and suffering a rent burden. Higher income groups are uninterested in the location or would be interested in the units after substantial upgrading. In the short run, this means there is affordable, albeit not high quality, housing. Over time its condition worsens. As attrition occurs in this low quality stock either because of reinvestment or disinvestment, poor families lose.

The best hope is that owners of this housing will get financial incentives and subsidy to break this dreary deadlock against private investment in housing for low and moderate income households.

Apartment Buildings. Apartment units located in structures with five or more units face the same market conditions as noted above. However, in Boston they face two additional problems. First, these are properties which are more often held by professional investors, not amateurs. With professionals, decisions are made both with regard to economics of the building and with regard to alternative assets in the investor's portfolio. The decisions, while perfectly legal and even rational from the owner's point of view, may work against the interest of tenants or public goals for housing. Condo conversion is a case in point. There are investment reasons for the shift of apartment units to condos, but tenant interests are rarely advanced by such conversions.

Second, the Tax Reform Act of 1986 makes investment in such rental housing much less attractive than before 1986. This suggests that rents will be raised to create the positive cash flow which is ultimately expected for housing investors under the new tax regime. "Social rents" and other

57. There are important exceptions such as units rented to illegal immigrants or other groups without choices or who are unlikely to complain or who are only temporarily in the housing.

noneconomic factors which apply to the 1-4 unit inventory are unlikely here.[58]

There is one window in the apartment sector that shows both danger and opportunity. With the limited construction of nonluxury rental private housing, there is an opportunity in some neighborhoods for owners of existing rental properties to get a good return by meeting the continuing rental demand and by taking advantage of a market that is likely to remain tight for some time. In a more stable environment and with a soft market for condos, such a possibility is more likely now than at any recent time. Rental units will be preserved and incentives for keeping quality will not decline. This is the opportunity.

The danger is that complacency and inattention to production needs will simply tighten the market to the point that new levels of adverse effects (i.e. rapid rent inflation) are triggered. There is also the danger (reduced by the 1986 city ordinance that restricts condo conversions) that there will be new pressures for condo conversion.

These decisions on the future of the rental housing in the city are not simply decisions that investors will make in isolation. They have to be made in conjunction with the mortgage underwriting environment where there is growing conservatism and deepening skepticism about speculative real estate.

In the Boston market, it should be easier to make the case for holding onto rental units. Where these units are in difficult condition, public policies are needed to assist owners who commit to an arrangement for affordable housing with access to all. For tenants who are low income, there is the additional need for direct-assistance so they can afford the rents that will need to higher is the stock is to be preserved.

For rental properties that can't go upscale, including some of the units under Boston's limited rent control, the risk of the loss is significant. If owners cannot sell, raise rents, or refinance, the only option left is disinvest-

58. In some cases, these owners charge a below market rent reflecting social or personal goals. Social rents may be charged to family members, friends of the family or persons who perform services in exchange for rent concessions. Other times social rents reflect a private market where units are circulated to members of an ethnic group with the goal of keeping the units out of the broad market. Finally, social rents reflect satisfaction with present tenant and preference for stability rather than higher income. While it is well known such private policies operate, there is no data to estimate its extent.

ment.[59] There is no choice.[60] For Boston, the challenge is to figure out ways to prevent this Hobbesian choice of end games: reinvestment or disinvestment.

Finally, low and moderate income tenants in Boston relied, to some extent, on the rental resources in nearby formerly low rent suburbs, such as Somerville, Malden, Chelsea, or Quincy. In recent years, these communities experienced similar market pressures as Boston. With very few exceptions, holding quality constant, these places are no more affordable than Boston and part of them are less so. For minority households race is still a barrier which is easier for landlords to hold given high rents and prices, and generally low vacancy rates in the region. Traditional, more distant, affordable places such as Fall River and Brockton are, for the poor, much less viable as well.[61] Units in those communities face pressures similar to those in Boston.

Boston Minorities and Development

There are two major questions about development as related to the minority community. The first is whether in the interest of fair housing, production of new housing should take place in minority areas or outside them. This question goes back to an ongoing concern that housing segregation has been maintained by meeting minority demand in their community

59. The point about disinvestment is not meant to suggest the likelihood of sudden loss of units. It is a process that typically extend over a decade. During this time, tenants remain in units which get minimum attention, no capital improvements except what is required to keep the units habitable. Eventually in the last stage, services are withdrawn and utility, tax and mortgage delinquencies mount. In Boston, such a scenario might also trigger "hardship" grants of higher rents to cover cost of repair and rehabilitation. Either way, the units are lost to the affordable stock.

60. Actually, there are buyers of "distressed properties" who will no doubt figure out ways to make money on any property for a while. The end result after "milking" is abandonment, but sometimes not before arson, fraudulent insurance claims or huge unpaid tax and utility bills are incurred.

61. See Abt Associates, " Massachusetts Housing Inventory and Policy Indicators," Vol.1 (Cambridge: Abt Associates, 1988), pp. 6-14.

and restricting their access to other areas.[62] The analysis presented in this report suggests that the magnitude of need and the differential growth in the population (favoring minorities) supports continued housing development in the minority community even as efforts continue to gain access for minorities in other areas of the city and in the suburbs. There is ample demand to support development in the community and to develop housing to integrate previously segregated areas in the city. A disproportionate share of potential residential development sites in the city are in or near minority areas, however. Any restriction on development in the minority community limits opportunity for people in that community and limits the city's ability to meet citywide needs. This includes the choice of minority households who want to go elsewhere in the city, but who can go only if there are affordable vacancies in a citywide market.

The second question is the role of the minority and community (nonprofit) developers as housing developers. There are two aspects to this question. First there is the issue of getting a share of the overall opportunity for minority developers. A related issue is the allocation of the opportunity in neighborhoods as between for-profit versus nonprofit developers. On the matter of minorities getting a share of development opportunity, more progress has been made in the last five years than in all the years of the Boston renaissance. There is a group of minority developers who are developing a growing track record inside the minority community and to an extremely modest degree outside of it. Their overall experience reflects a

62. The issue has been raised in court in the case popularly known as "the Gautreaux" case. The Supreme Court ruled that public and assisted housing shall not be located in a way that reinforces racial segregation. As a result there has been little public housing constructed since the court's decision in 1972.

growing capacity and sophistication. A prosperous black bank and a growing number of development professionals are additional gains. The Parcel 18 project being done by Columbia Plaza Associates pushes the limit outward toward big projects. There is room in the city for a variety of housing firms; minority developers are critical players since innovative smaller projects (less than 200 units) will be important given the configuration of available land resources.

Another aspect of the issues has to do with the split between minority developers and community-based nonprofit sponsors. About a dozen nonprofit groups in the city have in recent years been the major developers of housing. Together these groups have produced or have under development more than 2500 units and have with the help of BHP, GBCD, LISC and others increased their capacity in recent years. They are committed to affordable housing and in many cases have taken over housing developed under old housing programs or mismanaged by private developers.

These newer nonprofits stand in contrast to some of the 1960s groups who were not housing professionals and who in many cases ran into serious problems trying to develop and manage housing. Many advocates, residents and officials want to assist these groups to do even more. Most of the units produced by these groups have been developed in the minority community though there are important exceptions such as the South End, the North End, Fenway and Allston-Brighton.

The emergence of minority developers means that there was direct competition for development opportunities in the minority community. Both sides have sought to set some limits or the restricted access given to the other. Community development corporations have criticized the private developers who they feel want to develop too much market housing and

who want to earn a profit at the expense of the poor. Minority developers have sought to obtain development opportunities that were destined for non-profits. Both producers are needed. The nonprofit groups cannot develop all the housing that will be needed. Minority private developers have interests like all private developers thought, they bring the benefit of probable long-term interest in the property which cannot be counted on from non-Boston developers. The income of residents in minority neighborhoods will serve as a practical limit on the amount of market housing anyone can produce.

The question the city has to address is how to manage the development process so that the type of housing built is for the groups that need it in a way that efficiently uses land and other resources and best strengthens neighborhoods. With this in mind, there is an important role for each and from the point of view of the minority communities and the city, there is an interest in the two being cooperative, not competitive. There is also the need for high standards of design, construction and management to be enforced for both.

There are two further points that deserve note. First, while there is need for housing, the poverty in the community is a serious problem. This means little housing can be developed in the community that is not subsidized, and in most cases with a moderate to deep subsidy. This fact argues for pushing the limits of inclusionary housing and mixed income housing and for preserving all existing low cost options.

There is the need to pay attention to problems that could dampen developer or consumer interest. These include drugs and related crime and public education. Both are central to the fabric of the community the strength of

which is critical to attracting investment and promoting maintenance of private housing resources.

Fair Housing. Traditional fair housing concerns have focused on eliminating the well-documented discrimination in the suburban Boston housing market. More recently, attention has been directed to modest efforts at opening previously closed sectors of the Boston market to minority households. They both will continue to be priority areas.

The analysis presented here points to some new realities and challenges about achieving the fair housing goals in Boston.

1. As a result of spread of reinvestment to a larger number of neighborhoods, including areas which used to be low cost, close space housing areas, minorities will have fewer new areas to which large numbers can afford to move.

2. It is a growing phenomenon across cities that urban poverty is more concentrated (poorer people are concentrated in fewer areas.) Since minority households are more often poorer, they run the risk of further isolation that is racial as well as class in character.

3. A growing number of minority households are foreign or undocumented workers. As such they are not familiar with their rights under the law or are afraid to use them. They run the risk of exploitation.[63]

4. The increase in housing prices and the lower incomes of minorities mean affordability related reasons for segregation are increased. Access to suburban housing is more difficult.

5. The low vacancy rate means that discrimination is more easily hidden. There are many applicants for an apartment and applicants feel the need

63. Illegal aliens are sometimes crowded in to units to achieve the following nefarious purposes: 1) collect excessive rents based on headcount and the limited options illegals have, 2) lease an illegal or substandard unit, and 3) "harass" regular tenants who will move out to make condo conversion or other changes possible. When a building is used this way, other problems sometimes occur. For example, drug traffic may emerge. A convergence of nefarious interests emerges on the part of the exploited (illegal aliens), the criminal (drug dealers) and landlords, to keep the authorities away. Each gets what they want at the expense of the neighborhood ,the building and each other.

to move on to explore many ads rather than follow up on calls that are not returned or agents who appear uninterested.

These shifts are permanent and part of the fabric of housing policy decisions.

Summary

This section described the present and future dynamics of production, maintenance, and preservation of housing resources in the city. It also made the connection of these dynamics to the composition and shifts in housing demand. What emerges from this analysis is that between now and the year 2000, there is and will be a mismatch between the housing needed, on the one hand, and the resources that are available to produce or preserve units, on the other.

Part of these dynamics have nothing to do with Boston and they exist despite city efforts to address them. They derive from high interest rates, tax reform, limited federal resources, shifts towards more conservative financial and underwriting policies of lenders and secondary institutions, high development costs, etc. Others are related to the recent trends in the city such as household growth, a more speculative and investment oriented housing consumer and new development priorities in the city and the neighborhoods.

Every major analysis suggests that Boston will continue to be a viable city.[64] The city's real estate market, while cool now compared with the last

64. See Alexander Ganz and Gregory Perkins, "Boston's Outstanding Recent Performance and Leadership Role Among the Nation's Cities; Notable Prospects for the Future; The Outlook for Demand and Supply of Office Space, Hotel Rooms and Housing," Presentation to the Fan Pier Citizens Advisory Committee, March 1985. Also see Francoise Carre and Jeff Brown, "The Economies of Boston and 34 Other Large Cities: Comparative Analysis. Boston Redevelopment Authority, 1987.

three years, has a strong basis for remaining robust with prices and rents increasing moderately in real terms. The prediction for modest appreciation is offered despite recent evidence that the market is flat.[65] Both Washington and Los Angeles have had price and rent run ups like Boston. They too went through a period of flattening (and gloom among some investors) before resuming a moderate and then rapid rate of growth.[66] Even with the flattening, what we see is only an average effect. In some neighborhoods and for some types of housing, greater than moderate appreciation will continue and in others, prices will rise but length of time on the market will increase. In other areas or for some types of properties, softness may linger for extended period. Actual price drops in the city will be isolated and perhaps for property or project specific reasons. There is no evidence yet that the effects are more serious.

The analysis thus far points to a widening gap between housing supply and housing needs.[67] Everything suggested here indicates that the gap will remain large without effective policies to close it. There is no reason to

65. After peaking at $182,000 (in the 3rd quarter of 1987), median house prices in the area have varied in the last year less than 3 percent. This is hardly statistically significant. Such results can be accounted for, for example by a shift in the location and type of units for sale, seasonal or interest rate responses. After three years of high levels of activity, this could also be stability caused by fewer buyers to bid up prices. There is no research to test the contribution of these or other factors. Data based on GBRE Board data in "Boston Area are Homes Post 2nd Price Drop" in Boston Globe, May 25, 1988, p.36. There is no evidence of a decline in Boston Housing prices. See Teresa Hanafin, "Downtown Condo Sales Resist Sluggish Trend, Boston Globe, December 31, 1988, p.45.

66. For a discussion of boom and post-boom behavior in Boston and other cities, see Karl Case, "The Behavior of Housing in Boom and Post-Boom Markets," New England Economic Review, November/December 1988, 29-45.

67. The reader will note that "need" is used here to capture both the requirement of those who have resources but also those who require shelter but have resources too limited to afford what they need.

predict that the poor will become significantly richer in relative terms and prices and rents at high levels now will decline to where the poor can better afford housing.

This raises several questions. Will Boston be in a better position to assist the poor in the future? Can the private market serve those with resources as well as those with needs? Will the federal government provide more housing resources than have been provided in the recent past? In short, is significant progress possible? There is already evidence that the one result of the more stable market and the end to unbridled optimism about development possibilities will make it harder to solve the city's housing problem.[68] There is anecdotal evidence that appraisals and underwriting are becoming more conservative and the speculative ideas get a far more skeptical audience. This makes it harder to do the creative financing which is so critical to the development of affordable housing, to building with difficult constraints, or to demonstrating feasibility in changing market conditions. Only some of these factors can be laid on the doorstep of Boston's slowing market or to the lack of federal programs.[69] This is a strange paradox. The very environment which supported a hyperactive market and exacerbated affordability

68. See, M. E. Malone, "Plans for Affordable Housing Caught in Financial Squeeze," Boston Globe, May 24, 1988, p.20. For discussion of this problem in connection with development in Boston minority community, see Steven Marantz, "Nonprofit Developers Say Lenders Holding Back Loans," Boston Globe, October 29, 1988, p. 21.

69. Some of the underwriting problem is associated with congressional and industry concern with the appraisal process and the quality of loan portfolios of lending institutions. In addition, the tax situation which is less favorable to rental housing in particular makes it more difficult to convince investors to support housing which is at all constrained in the return that can be achieved. In addition, the concern about the contingent liability of the federal insurance funds for bad real estate loans is not a problem in New England. Nevertheless, the current scrutiny may be sufficient to squelch the higher level of risk-taking evident just two years ago.

also supported creative mechanisms to promote affordable housing for which Boston has become well known. Moving to a more stable and cautious environment which is otherwise preferred makes it more difficult to develop.

Chapter 4

Boston Housing and Suburban Markets

This paper has focused on housing in the city of Boston. Yet for a growing number of consumers, the boundary between the city and the suburbs is quite permeable. After more than three decades as the place from which households fled, the city is now part of a network of substitutability of housing transactions in an area that includes the suburbs and nearby hinterlands (i. e. southern New Hampshire, Cape Cod and southeastern Massachusetts.) Boston residents move to the suburbs and suburbanites move to the city. Each considers the other as a real choice. Both movements are important. The failure of this paper to discuss these dynamics in more detail is not a statement that they are not important but a limitation of space.

To put the city-suburban relationship in some perspective, however, the following points are offered in summary:

The ability of many Boston residents to find an affordable place to live in the suburbs has shrunk in recent years due both to scarce units and price/-rent inflation in the suburbs. Prices and rents in the city have escalated faster than in the suburbs. As many suburban prices double, city prices increased even more. Comparable units have nearly the same price. While the gap between Jamaica Hills and Wellesley Hills is still wide, West Roxbury and Arlington as well as parts of Dorchester and Reading, Back Bay and Brookline are closer together. This means the economic means and incentives for Bostonians to move have declined and that formerly less

expensive options for upgrading in the suburbs have escalated beyond what they can afford. For some city residents this means they are trapped in the city (sometimes in housing that is itself at risk of loss as affordable shelter); for others, its means that sticking with or investing in their Boston housing is now more attractive, if not compelling.

Suburban regulations have artificially restricted the development of lower cost options in certain housing types such as rental apartments and smaller homes. Even when developers are willing to build cheaper housing in suburbs, they are prevented from doing so. Recent initiatives by Executive Office of Communities and Development and the Massachusetts Housing Partnership that involve both "carrots and sticks" to suburban communities were expected to offer a modest turnaround in the production of affordable housing. The scarcity in the suburbs further drives up the cost of suburban housing and forces city residents to remain in the city. While there were great hopes that these initiatives, grounded more recently in the necessity to meet white first-time homebuyer demand, not housing for inner city poor, would increase the amount of affordable housing, the record to date is not impressive.[70]

When city residents who might have moved to the suburbs can't find suburban housing they can afford, they are forced to stay in the city; and housers in the city adjust their product(s) to accommodate the thwarted suburbanites (not the poor who also need housing in the city but do not have the means to pay for it.) The rise of condominiums in the city and

70. Only 28 cites and towns of 351 in the state have met affordable housing targets. This includes 18 of the 39 cities in the state. This is after also 5 years of new state incentives and 20 years of the anti-snob zoning legislation. See series by Peter Canallies, "After 20 years, Anti-Snob Zoning found Ineffective," Boston Globe, January 1, 1989, p. 16.

gentrification in residential neighborhoods like Dorchester and Jamaica Plain are, in part, examples of this phenomenon.

One-third of the movers in Boston in 1981-85 were from outside Boston. They include many young, middle or upper income, small households who contributed to the city's overall growth and increasing middle class, mainly nonfamily population. In the face of a slow rise in stock in the early 1980s, this put pressure on prices, increase in condos and stressed the rental market.

The poor quality of Boston schools used to be a strong negative influence on the city/suburban housing interaction. The household growth in the city area increasingly includes households without children and for whom the school issue is not relevant. Even as school problems worsened, the demand for Boston housing increased. Demographics suggest this is a permanent reality and that as far as housing is concerned, the city's future is not strictly tied to improvements in the school system.[71]

The other negatives of inner cities – crime, dirty streets, etc – likewise have proved not to be a barrier until the recent series of drug crimes highlighted the susceptibility of certain locations.

The enhanced residential quality of the city, improved job opportunities (in the downtown, medical area, etc.) and expected future growth, serve as strong magnets to the city and portend extended external pressure on Boston stock to adjust to the growing number and share of nonfamily households.

Developments in the last 5 years have established that unlike in the previous thirty years, Boston is now a receiver as well as exporter of me-

71. This is not to belittle the very critical role that education plays in expanding the opportunity for individual mobility and for meeting the region's labor needs which are already critical.

tropolitan housing demand. The change has been so extensive that growth anywhere in eastern Massachusetts augurs well for the city as place to live and will, potentially, generate demand for housing in the city. Suburban developers now eye the city for potential development sites and city developers do not have to fear that suburban development will render their projects redundant.

Boston cannot be oblivious to suburban development, however. In the long term, if Boston's physical development, including housing development, does not make the city a more attractive, accessible and pleasant place, nearby suburban areas may be more attractive and capture some of the population and development that might otherwise have gone to the city.

Another forum is required to address in detail these and other issues of city-suburban interaction. Boston has to be proactive to advance its housing and neighborhood quality interests. Neither time nor blind faith will be adequate solutions. There is no evidence in the city's history or the present experience that the "hidden hand" is either wise or fair. Planning and public policies are as much a part of the city's history as the Boston Common.

Chapter 5

Boston Housing and Housing Policy

The question now is what does Boston -- its government, communities, development sector, and residents -- do over the next decade to improve the housing circumstances of the Boston residents. There is also the question of federal government action in the years ahead. An important question here is what needs to be done locally and what federal action best supports continuing local efforts. This paper makes the critical assumption that no federal action -- no matter how generous -- displaces the need or obligation for a local housing policy.

There are four areas for housing policy action, regardless of level of government: production, preservation of currently assisted units, maintenance of existing private housing and access. Subsidy, planning, regulation and coordination of private, public and community action are the major tools. The action should be complementary. In the sections below, we explore local and federal policy.[72]

Local Housing Policies: Ideas and Perspectives

To a very significant degree the future of low and even moderate income housing development in the city is linked to overall development. It is unlikely that there can be significant housing development if the city's economic strength does not continue to expand. The two seem to go together. They have been linked significantly by the use of such policies as

72. State policy is also important but will not be explored in this document. There is presently an EOCD study being done to address these issues.

linkage and by the city's growing reliance on its own creativity to address housing issues. There are some other points to raise in this connection. First, the policy environment. We are likely to face a future where interest rates will be high by historic standards. The fiscal restraint at the federal and perhaps at the state level may continue for sometime. We have an increasingly unfavorable housing investment environment stimulated first by tax reform, more profitable options in other forms of investment, as well as by more conservative underwriting criteria growing out of the current banking situation. Tax reform not only discourages certain activities that professional investors wuold have undertaken, it also reduces incentives to small investors and nonprofessional investors who, in a city like Boston with mainly small structures, have been important in the past.

In addition, the next ten years, starting in 1989, will be marked by a good deal of more public investment than has been true in the past where private investment in the downtown was the predominate area of growth. The reconstruction of the central artery, third harbor tunnel, clean up of the Boston Harbor are all major activities involving billions of dollars over the next ten years. The activities will have significant impact on the continued strength of the housing market, but as public activities, they create fewer opportunities for the kind of linkage that played a critical role in recent years.

Finally, at this writing federal tax credits and mortgage revenue bonds for housing, as well as productions subsidies are restricted, at risk or not widely available and are likely to remain that way. Housing development has been possible in the past because these multiple resources have been joined.

The issue in the future is whether there will be a sufficient number of resources available and whether they can be joined in the creative ways that

made the period 1984-1987 so effective for spurring investment. It is ironic that the same environment that supported extensive and even speculative development also supported some of the creative tools used to develop affordable housing. In the more stable environment that we are likely to see in the near future, creative efforts might not be possible without a commitment to institutionalize some existing initiatives as well as developing new ones to match this environment. In the sections below, some of these areas are outline, both with a restatement of existing policy as well as new suggestions that hold promise for effective local policy.

With respect to the four policy areas -- production, preservation, housing maintenance, and access -- Boston has already done quite a bit. An earlier section outlined the improved production record of the city, the growing attention to preservation and record amounts of investment in the existing stock even in areas that 5 years ago were virtually abandoned. The city is also trying to come to grips with both the official and private discrimination in housing programs and private markets.

The case for subsidy has already been made that there is no way to achieve the city's housing goals without effective and efficient means to close the gap between what housing costs and what Boston residents can pay without subsidy. The city has found new and creative sources for subsidy and other means to reduce the cost of development. But subsidy alone is not adequate. Regulation and delivery are also important. Compared to 5 years ago, the city now has more streamlined processes and better trained and more sensitive staff and the mayor has offered (though the Ciy Council has not always approved) innovative strategies for rent control and condominium regulation, fair housing and "inclusionary housing."

Planning is also important and Boston is in the process of developing a new comprehensive zoning plan. Both the process involved and substantive evidence to date indicate that the city and the communities are attuned to the serious issues at stake in the development of these plans.

Coordinating local resources is important in local policies. The progress in Boston in recent years has been achieved in part because the city has been effective in putting various resources together to make housing development possible. While some impressive and creative development has been done, there are limits. The absence of federal dollars has made a consistent response to the poor almost impossible.

The future of the city's housing depends on the continuation of past policies and practices and some additional or enhanced initiatives such as the ones listed below.

Production

1. The city should continue to encourage and support housing development in the city with a priority on low income and affordable housing.

2. The city should identify unusual sources of housing production such as accessory apartments and develop careful and sensitive ways to incorporate these units in the housing stock and in the neighborhoods.

3. The city should continue to seek and support new players in the housing development community (such as minority developers) and lenders (such as institutions), etc.

4. Nonprofit developers represent a major resource whose efforts should continue to be encouraged and supported.

5. Mixed income and mixed use development represents a growing trend in cities, not only in the downtown and suburban areas but in traditional residential areas. This should be encouraged in Boston both to address competitive issues for the use of land but also to achieve the kind of mix that increases equity and adds vitality to communities.

6. The city should support housing development and social services for special populations such as the homeless, the infirm elderly and single individuals who are poor. Housing development in areas plagued by crimes and other serious problems should have social services needs addressed in connection with housing development.

7. The city should develop a "Nehemiah" type housing program and manufactured housing as the best hope for extending ownership to the poor and for making efficient use of the large sites in city neighborhoods.

8. The city should encourage employers to become active in housing development, especially large nonprofits such as private hospitals and universities whose endowments represent potential equity investment.

Maintenance of Existing Housing

1. The city should continue to regulate the conversion of apartments to condominiums and should conduct an investigation to determine if investor owned condominiums are being managed consistent with city housing goals.

2. The city should develop an information system that keeps track of trends in various aspects of the existing housing.

3. The city should give priority in certain programs to small landlords whose ability to provide good housing is critical to the low and moderate unsubsidized housing.

4. In its housing policies, the city should give special priority to its older homeowners and help them maintain their housing for their own shelter, for the affordable rental units they provide and to conserve the stock in face of the owner's personal economic limitations.

Preservation

1. The city should develop an information system to track financial and other developments in the stock of assisted housing, both the older-assisted housing and Section 8 and public housing.

2. The city should develop scenarios for using city resources to augment what are likely to be inadequate or capped federal resources. These tools will involve not just dollars but regulations, code enforcement, etc.

Access

1. The city should include strong requirements for affirmative marketing in all housing development in the city.

2. Preference should be extended to developers whose proposals advance fair housing – both based on the record and specific commitments and the nature and location of the proposed developments.

There are several areas for city action that cut across the categories above. Two of these are addressed below as examples of major new frontiers the city could explore. First, Boston is blessed with one of the nation's strong-

est nonprofit development communities. More than a dozen CDCs have experienced developing hundreds of units. These organizations are scattered over the city and have strong support in their communities. While they are strong, that strength is not fully tested or is sustained by a network of intermediary organizations without which the CDC would not be able to operate effectively. If we are to rely on them for further major development, for long term management and for help with new challenges, these organizations will need considerable help. While the city is not alone in this responsibility, it is important that the city send clear signals about project performance standards and that they work with foundations, MHFA and others to build capacity even as they support a greater role for the nonprofits.

A second frontier to highlight here is the critical role housing plays in the area's competitive economic position. Many firms and institutions already understand that their ability to compete for workers depends on the availability of affordable housing, yet they are not inclined to be active in housing.

It is a major challenge to figure out how to get the corporate and institutional community involved in housing. They can buy tax credits, support the development of a nonprofit mortgage company, enter into partnerships with CDCs, make contributions to housing activities and services and include housing benefits in their compensation packages. They have to overcome some problems. Growing firms tend to be smaller and have fewer ways to be active in philanthropy. Firms vary in terms of their location and where their workers live and many firms of all sizes do not take the long view that housing requires. While all of these ideas and issues require further study, the scattered evidence from around the country confirms that there are

possibilities. The state of the market and the danger to the city's and region's competitive position confirm they need to be active.

In order to keep abreast of the many issues identified as important in the paper, the city should produce every two years a "state of the city housing report." This will provide a common basis for evaluating progress and for taking corrective action. The report should incorporate appropriate economic information and summary data on relevant suburban and state activities.

Second, the city should take the lead in convening dialogue with the state and the suburbs on mutual issues of housing policy. The dialogue should also include other areas that affect metropolitan quality of life such as infrastructure, transportation, regulation, fair housing, and the strategic use of what will be limited state resources in housing.

National Housing Policy: Ideas and Perspectives

Congress is considering various proposals for a new national housing policy. Two commissions, various task forces and a host of private, public and advocacy groups have submitted position papers.[73]

As suggested at the beginning of this paper, the federal government has moved through three different phases in its approach to housing policy. The first phase (1937-65) was public housing; the second period (1968-1973) marked a transition to privately-developed subsidized housing for moderate income households, smaller projects, and reliance on the private sector. In the third phase (1975-1981), the government moved towards deeper subsidies to assist the poor, greater reliance on rehabilitation rather than new construc-

73. For the status of current thinking see U. S. Senate, Subcommittee on Housing and Urban Affairs, National Affordable Housing Act: Staff Concept Papers, (Washington: U. S. Senate) August 12, 1988.

tion and direct assistance to the poor in the form of vouchers and certificates. Since 1981, the nation has had no new federal policy on production and has seen more reliance on vouchers for a limited number of "truly needy." The search is on for Phase IV.

The Housing Act of 1987 authorized some demonstration initiatives in housing such as the Nehemiah Program for Homeownership. The Tax Reform Act of 1986 provided a modest tax credit for low income housing production. In 1989, the Congress will also consider the renewal of state authority to issue mortgage revenue bonds and the tax credit provisions.[74] Representative Joseph Kennedy (D-Mass) has introduced legislation entitled the "Community Housing Partnership Act, " which would provide increased federal support to local nonprofit organizations for the development of low income housing.[75]

In anticipation of a new administration and out of recognition of the growing seriousness of the housing problem in many cities and in rural areas, the Congress commissioned two groups to look into issues of national housing policy. The interest in the Congress is impressive in its scope, seriousness, completeness, and its commitment to an activist role in housing for the federal government.[76] Yet the interest is still just a series of ideas

74. No new dollars were appropriate for these programs, but their authorization did signal an intention on the part of the Congress to revisit a host of housing issues with more comprehensive legislation.

75. Mortgage revenue bonds have been used extensively in Massachusetts for households in the $25-35,000 income category, for the lower priced homes, and in Boston for slightly lower income families in special programs. The renewal legislation presently in the Congress is H.R. 2640 and S.1522.

76. In 1980, the commission appointed by President Reagan concluded that a more passive role is appropriate for the federal government given the "progress" made in housing and the capacity of the private sector and local governments. The report highlighted the adminstration's perspective that it is more appropriate for the government help "truly needy" households consume housing (with a voucher) than it is for the government to produce

and unformed judgments about what a Phase Four housing policy should be.

The National Housing Task Force. The report of the National Housing Task Force is entitled a Decent Place to Live. The task force, composed of a distinguished bipartisan panel, was headed by James Rouse, a retired developer and philanthropist, and David Maxwell, President of Federal National Mortgage Association. The report is a passionate call for action to address a host of housing problems, that while modest in its resource recommendations, is decidedly activist.

The proposals focus on production and the report makes its case by acknowledging significant changes that have occurred concerning urban housing markets and the national housing and investment environment. They note a very substantial increase in the number of very poor households between 1974 and 1987 – from 2.7 million to 4.7 million. They point out that in 1980, one-third of all households who earned less than $15,000 faced an inventory they could afford. Since then units that could meet the need of these families shrank from 1.3 million to 1.0 million.

The Commission also noted the significant income differences between renters and owners. While owners have achieved some real growth in income, renters have lost purchasing power. In constant, 1986 dollars the income of renter households nationally declined from $18,000 in 1972 to $15,300 in 1986.

According to the commission, poor renters are already making a valiant effort to meet their housing needs. With declining real wages and rising rents, the number of the poor paying more than half their income for rent

units. See Report of the Presidents Housing Commission: 1980.

increased from 3.7 million to 6.0 million between 1975 and 1983. This catalogue of woe applies to Boston quite well.

To address these issues the commission makes the following recommendations:

1. The federal government should be committed to a major production effort involving $3 billion dollars in the first year to assist in the production, repair, or rehabilitation of 150,000 to 200,000 units for an average subsidy of about $20,000 per unit;

2. The federal government should encourage state and local governments to design and implement these programs by providing them with both federal dollars, but also greater program options and flexibility, with a minimum of regulation;

3. The federal government should make a long-term commitment sufficient to address the needs of the poor;

4. The federal government should support the development of charitable loan funds to increase the amount of private capital available to meet the housing needs;

5. Congress should create a private government charted corporation to advance housing for the poor;

6. The federal government should initiate new programs to aid the homeless;

7. The federal government should support proposals to preserve the existing stock of private and publicly assisted housing;

8. The federal government should return to the use of tax policy as a means to promote the development of housing without abandoning the central elements of tax reform;

9. The government should use rental assistance (an additional 100,000 certificates) to complement production and preservation efforts;

10. We should adopt a more flexible definition of the burden that the poor can afford, taking greater account of the number of children and other needs;

11. We should create new mechanisms to promote homeownership, which in recent years has begun to decline in all segments of the population but dramatically so for the poor;

12. The government should increase the enforcement powers in the area of fair housing;

13. The various levels of government should make sure new housing resources promote affirmatively equal housing opportunity.

If substantial elements of these recommendations are accepted they would represent a major departure in federal policy. This moves us back to where we were in the early 1970s, but with shallower subsidy at the national level and a greater reliance on state and local governments to supplement federal dollars and to do the creative programming and implementation activities previously dictated in federal program guidelines.

In general, Boston would be well served by these recommendations, although the proposed subsidy for new production at the level averaging $20,000 would still leave a huge gap in Boston projects aimed at helping the poor. Whether it is housing for rent or for owner occupancy, state and local government would have to come up with substantially more subsidy compared with other parts of the country and, of course, compared with previous programs. To that extent, such proposals to be helpful should make some accounting for the different costs of production of housing in Boston

and other high cost cities. This $20,000, for example, combined with our state's HOP program makes it possible for moderate income families to afford to buy some of the less expensive houses or family-sized condos in the city. The subsidy would not bring housing within reach of the working poor, however, unless it is combined with other subsidies.

What might these task force proposals mean in terms of the number of subsidized units in Boston? Assuming Boston is able to do as well as it did it other programs,[77] this might mean 1800 to 2400 units in a national volume of 150,000 - 200,000 units.[78] We should not assume this number is in addition to other units produced by state and local government since a shallow subsidy still requires some state and local funds to make it work. This level of activity would represent for assisted production a very modest increment over assisted production levels for Boston between 1984 and 1987.

We should assume there will be strong political pressure to spread national funds more evenly across the nation than was the case in previous programs. A more even distribution would mean that Boston gets substantially less than 1800 units per year so that federal aid at this level would move us no closer to our housing goals. If state resources for housing production do not grow as now appears possible, Boston may actually lose ground.

77. Boston made extensive use of the various federal programs. Subsidized housing constitutes about 4% of the nation's housing, yet in Boston, these units account for 17% of the stock.

78. Boston's 42,000 public and assisted units equals 1.2% of the national stock of 3.4 million units. Vouchers and certificates are excluded from this calculation since they do not constitute a unit produced as a consequence of a government program.

The Low Income Housing Preservation Commission. The housing committees of the Congress also commissioned a bipartisan group to examine the preservation issue. The commission looked into the magnitude of the housing preservation problem in the old stock of subsidized housing, identified ways that are cost-effective to maximize the preservation of this stock and estimated the cost to the treasury of different alternatives. The Commission was headed by former Congressman Henry Reuss and former HUD Secretary Carla Hills.[79]

The Commission did not deal with the Section 8 Program, which is larger than the older privately owned assisted inventory (800,000 units versus 645,000 units) or public housing (1.35 million units) or the private low rent unassisted housing stock.

The units in this older inventory of housing were built mainly in the Phase Two policy era (1965-73) when Congress first relied on the private development community to build housing for families earning 80-95% of local median income.[80] These programs received low interest rate loans, forty-year insured mortgages, and later, Section 8 or some other form of rent supplements. The general and limited partners also had their limited dividends supplemented by generous and multiple tax benefits.

The magnitude of the preservation problem identified by the Commission is very large. The Commission estimates that 43 percent of the older assisted units will default and that this default will peak in 1992. The default scenario is simple: it is the point at which the projects will have insufficient

79. The report is entitled, Preventing the Disappearance of Low Income Housing (Washington: National Low Income Housing Preservation Commission, Balmar Printing and Graphics, 1988.)

80. The commission is found that presently 70 percent of the tenants earn less than 50 percent of median income.

cash in the amount of $5,000 per unit to meet their debt service and operating costs. The major trigger for this default will be the termination of the Section 8 Loan Management or other subsidy contracts attached to these projects in the late 1970s to meet escalating utility costs and to address deferred maintenance, the maturing of second notes and other financial obligations they are ill-prepared to meet.[81]

The Commission also estimates that 38 percent of the units would prepay and that this activity will be concentrated in the period 1991-1994. Prepayment occurs under the provisions of the initial HUD agreement where sponsors can, after 20 years, prepay their mortgage and be relieved of any restrictions or regulations regarding rents or occupancy. Owners are expected to prepay when the return that they or a buyer can achieve in the private unrestricted market exceeds their return as subsidized units. Addressing the issue of prepayment requires the government to provide an incentive to the owner to keep the project as a low income development.[82] The Commission estimates that only 19 percent of the units will continue as subsidized units for the next 15 years.

There are an estimated 30,000 units in this older subsidized inventory in Massachusetts. About half of these units are located in Boston or the immediate area. The Commission provides no evidence allowing us to determine which of the 300 projects in their sample were in Boston and what the fate of Boston projects would be. As regards defaults or prepayments,

81. It is important to point out that in the default situation the units may not be immediately unavailable to the poor. They can continue to live in the units while a financial workout is developed. If there is not a financial workout, then the project is ultimately loss by disinvestment.

82. These might include allowances for higher returns, equity takeouts, etc. It could also include some form of "buyout."

we have no reasons to believe that Boston would be in a more favorable (that is, less at risk of losing units) situation than the nation. There are forces in the city (high costs, seriously deteriorated conditions in some projects, deferred maintenance, very poor tenants) which would tilt toward a higher number of defaults. Boston also relies to a significant degree on the Section 8 Program and many of its projects have features -- both financial and physical -- which make them especially vulnerable to default.[83] Boston also has a number of projects that owing to other characteristics of the local market -- the high rents, and in some cases attractive location of the projects -- make them candidates for prepayment. If there is any local deviation from the national projection, it may well be that Boston would have fewer projects continue as low income and a somewhat larger number of projects in the default or prepayment categories.

Table 8 summarizes the commission's estimate of costs for preventing defaults and prepayments and sustaining operation as low income housing. In addition to the direct payments for dealing with defaults or prepayments, the table also indicates the commission estimates for the ongoing subsidies attached to these properties and necessary for their continued operation as low income housing: interest rate subsidy payments for the Section 236 properties and the Section 8 Loan Management Set Aside payments. The combined 15-year total for preserving all 523,000 units at risk is $18.6 billion. If all the annual costs are discounted at a government discount rate (the Commission used 8.7 percent) and these costs are divided by the 15-year average number of units preserved, the estimated discounted present value for preserving the defaulting properties is $26,000 per unit and for the

83. These include, for example, high utility costs, poor maintenance, second notes as a result of sales and transfer, irresponsible management.

Table 8: Estimated 15-Year Costs of Preventing Defaults and Prepayments in Older HUD-insured Assisted Housing

A. Prevent All Defaults and Prepayments

	DEFAULTS	PREPAYMENTS	TOTAL
Direct Payments	$4.5 billion	$6.5 billion	$11.0 billion
Ongoing Subsidies	$4.0 billion	$3.6 billion	$7.6 billion
TOTAL	$8.5 billion	$10.1 billion	$18.6 billion
Total Units by 2002	280,000	243,000	523,000
15-Year Average Number of Units	156,000	145,000	301,000
Discounted Present Value/Unit	$26,000	$35,000	

*B. Prevent All But Most Costly 50,000 Units**

Direct Payments	$3.3 billion	$5.0 billion	$8.3 billion
Ongoing Subsidies	$3.3 billion	$3.1 billion	$6.4 billion
TOTAL	$6.6 billion	$8.1 billion	$14.7 billion
Total Units by 2002	255,000	218,000	473,000
15-Year Average Number of Units	131,000	126,000	257,000
Discounted Present Value/Unit	$22,000	$32,000	
(1) $30,000 Vouchers as Replacement	$1.7 billion	$1.3 billion	$3.0 billion
GRAND TOTAL	$8.3 billion	$9.4 billion	$17.7 billion
(2) $44,000 Vouchers as Replacement	$2.5 billion	$1.9 billion	$4.4 billion
GRAND TOTAL	$9.1 billion	$10.0 billion	$19.1 billion

* *Excludes properties with new direct payments per unit greater than $30,000 (DPV) plus $11,000 (DPV) in ongoing Section 236 and Section 8 subsidies.*

Source: Preventing the Disappearance of Low Income Housing , p. 109.

prepaying properties, $35,000 per unit.

Noneconomic factors could reduce the size of the inducement needed. Owners might reasonably be willing to accept less in exchange for not having to displace tenants or face the ire of local community groups about this project, as well as avoiding whatever stigma might spread from this project to other development efforts or prospects of the owners. In Boston, many of the projects that reach the 20 year milestone by 1992 are owned by large developers who have extensive nonresidential as well as residential holdings and remain active in the city's development community.

The conclusions and recommendations of the Preservation Committee offer some important and challenging issues for Boston. The first one is that Boston has a higher concentration of assisted units, including units in this older inventory, than almost any city in the United States. There are more of these units in the City of Boston than in two thirds of the states. In the city of Boston there are more than 4000 units that will be eligible to prepay by the climax period in 1992 identified in the Commission. An additional 2500 units are in nearby Boston suburbs such as Framingham, Weymouth, Winthrop, Somerville, and Cambridge. This high concentration underscores the fact that Boston has a big stake in preservation. Whatever policy is promulgated will influence significantly the future on housing in Boston over the 15 years during which the preservation issue will unfold.

The Commission report makes the recommendation that priority be given for preserving units where the cost of preservation is less than $30,000 per unit. Given the high cost of housing in Boston, the location of some projects, the condition of several projects, and the difficulty under which some operate, as well as the poverty of their tenants, a federal policy which sets such a preservation cap will disadvantage the city of Boston by leaving many

of these projects outside the protection of whatever policy is developed.[84] The cap forces the tenants in those projects to rely on voucher or certificate programs which have their own special problems in this city given the high rent and low vacancy. In the case of a prepayment situation, even the voucher might not work because owners may gamble for even higher rents from an "upgraded" tenancy in this gentrified area.

The reliance that the Commission places on significant state and local contributions to the cost of solving this problem is a mixed blessing in Boston. In the positive sense, Massachusetts and the City of Boston are committed to saving as many of these properties as possible. But the cost of preservation may out distance whatever modest resources the state and local government may be able to come offer. The 30,000 units in Massachusetts constitute approximately five percent of the national stock of 645,000 older assisted projects. Given an estimated total cost of preservation at more than $17 billion, the share of the total cost that applies to Massachusetts projects would be almost $800 million over 15 years. Any significant percentage contribution to this amount by state and city will far exceed the likely resources available. Further, any substantial financial commitment by state or city has to be weighed against still unfunded commitments to meet projected requirements for affordable housing production in the state to meet growth and replacement demand as well as housing needs of still underserved groups.

84. For example, most older projects have outstanding mortgages of less than $15,000, but projects such as Castle Square in the South End have a market value, based on location, of at least $100,000 after modest improvements. Such a project has a high preservation cost, poor tenants and exists in a market where little replacement housing exists for such poor families even if the government gave them each a voucher. Replacement cost (new subsidized housing) would have a price tag of more than $100,000 per unit.

Under such a choice and resource scenario, it is hard to imagine political support to "bail out" federal projects. This has to be considered also in the context of the responsibility to address the Section 8 projects in this state, which are newer and probably more expensive to preserve. There are also thousands of state produced units of public and subsidized housing, as well as the more than 39,000 MHFA units which will require attention over the years.[85]

While the Commission recommends that vouchers be available to address the tenant needs for projects that cannot be preserved in a cost-effective manner, a voucher approach in Boston would be more expensive than preservation without the caps, and not nearly as cost effective as they would be in places with lower housing costs and where higher vacancies exist. "Effectiveness" assumes, of course, that families with vouchers will be able to find units which, in Boston's experience, is neither easy nor certain.

The good news is that the city and the state are cognizant of the issues and challenges. The state government appears committed to forestalling precipitous action in the older stock of housing to take it away from the poor. However, there is a sunset on these provisions as they are incorporated in the Housing Act of 1987. By the end of 1989 the federal government will need to have a new policy in place with adequate resources to start the important preservation tasks outlined by the Commission.

85. The reader should understand that these numbers are not additive. There is considerable but unknown overlap among categories as many developments are subsidized and/or insured by multiple restrictive arrangements.

Conclusion

The years leading up to the year 2000 represent a major challenge for the city. The funeral dirges of 20 years ago have been replaced by the blues -- songs of lost homes and unfulfilled dreams. The city has laid a solid foundation of programs to address the challenges faced in the mid 1980s. In this paper we have confirmed the continuation of the some trends and the emergence of still others, and the still wide gap between resources and needs. The paper has identified some initiatives that if taken strategically, will help the city help itself as well as take best advantage of whatever state and federal resources are available. They also help the city best engage the community and business sectors. This is a big challenge which if even moderate progress is made, it will usher in the "the city on the hill" that has all its citizens more decently housed.